M/037/027

Securities and Exchange Commission, Washington, D.C. 20549

Annual Report on Form 10-K for the year ended December 31, 1997.
Filed pursuant to Section 13 of the Securities Exchange Act of 1934.
Commission file number 1-1463

Union Carbide Corporation
1997 10-K

Union Carbide Corporation
39 Old Ridgebury Road
Danbury, Connecticut 06817-0001

Tel. (203) 794-2000
State of incorporation: New York
IRS identification number: 13-1421730

Securities registered pursuant to Section 12(b) of the Act:

Class of security:	Registered on:
Common Stock ($1 par value)	New York Stock Exchange Chicago Stock Exchange, Incorporated The Pacific Stock Exchange Incorporated
Share Purchase Rights Plan	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 ("the Act") during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

At February 27, 1998, 136,995,590 shares of common stock were outstanding. Non-affiliates held 133,765,732 of those shares, of which the aggregate market value was $6.212 billion.

Documents incorporated by reference:

Annual report to stockholders for the year ended December 31, 1997 (Parts I and II)
Proxy statement for the annual meeting of stockholders to be held on April 22, 1998 (Part III)

Table of Contents

Cautionary statement for the purposes of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995: All statements in this Form 10-K report that do not reflect historical information are forward looking statements. These include statements incorporated herein by reference to the 1997 annual report to stockholders. Important factors that could cause actual results to differ materially from those discussed in such forward looking statements include the supply/demand balance for the corporation's products, customer inventory levels, competitive pricing pressures, feedstock costs, changes in industry production capacities and operating rates, currency exchange rates, global economic conditions, particularly in Southeast Asia, disruption in railroad and other transportation facilities, competitive technology positions, failure to achieve technology objectives and failure to achieve the corporation's cost reduction targets or to complete construction projects on schedule. Some of these factors are discussed further in Part I, Item 1: Business.

Definition of Terms: See page 44 of the 1997 annual report to stockholders. Terms defined there are used herein.

Item 1. Business

General—Union Carbide operates in two business segments of the chemicals and plastics industry, Specialties & Intermediates and Basic Chemicals & Polymers. Specialties & Intermediates converts basic and intermediate chemicals into a diverse portfolio of chemicals and polymers serving industrial customers in many markets. This segment also provides technology services, including licensing, to the oil and gas and petrochemicals industries. The Basic Chemicals & Polymers segment converts hydrocarbon feedstocks, principally liquefied petroleum gas and naphtha, into polyethylene, polypropylene, ethylene oxide and ethylene glycol for sale to third-party customers, as well as propylene, ethylene, ethylene oxide and ethylene glycol for consumption by the Specialties & Intermediates segment. The profitability of the Basic Chemicals & Polymers segment of the chemicals and plastics industry is highly cyclical, whereas that of the Specialties & Intermediates segment is less cyclical. Consequently, Union Carbide's results are subject to the swings of the business cycle in both the highly volatile Basic Chemicals & Polymers segment and the less volatile Specialties & Intermediates segment. See page 1, pages 6 through 8, and "Summary and Outlook" on pages 9 through 11 of the 1997 annual report to stockholders for further information about Union Carbide's businesses, and Note Five on pages 28 and 29 of the 1997 annual report to stockholders for financial information about Union Carbide's business segments.

Union Carbide does not produce against a backlog of firm orders; production is geared primarily to the level of incoming orders and to projections of future demand. Inventories of finished products, work in process and raw materials are maintained to meet delivery requirements of customers and Union Carbide's production schedules.

At year-end 1997, 11,813 people were employed in the manufacturing facilities, laboratories and offices of the corporation and its consolidated subsidiaries around the world.

Raw Materials, Products and Markets—See information herein and in the 1997 annual report to stockholders on pages 6 through 8. The products of Union Carbide are principally sold by its own sales force, directly to customers.

Union Carbide believes it has contracts or commitments for, or readily available sources of, hydrocarbon feedstocks and fuel supplies to meet its anticipated needs in all major product areas. The corporation's operations are dependent upon the availability of hydrocarbon feedstocks and fuels which are purchased from diverse domestic and international sources, including independent oil and gas producers as well as integrated oil companies.

The availability and price of hydrocarbon feedstocks, energy and finished products are subject to plant interruptions and outages and to market and political conditions in the U.S. and elsewhere. Operations and products at times may be adversely affected by legislation, government regulations, shortages, or international or domestic events.

The business segments of Union Carbide are not dependent to a significant extent upon a single customer or a few customers.

Patents; Trademarks; Research and Development—Union Carbide owns a large number of United States and foreign patents that relate to a wide variety of products and processes, has pending a substantial number of patent applications throughout the world, and is licensed under a number of patents. These patents expire at various times over the next 20 years. Such patents and patent applications in the aggregate are material to Union Carbide's competitive position. No one patent is considered to be material; however, the patent portfolio relating to the UNIPOL process technology is, in the aggregate, considered to be material. Union Carbide also has a large number of trademarks. The *UNION CARBIDE, UCAR* and *UNIPOL* trademarks are material; no other single trademark is material.

Essentially all of Union Carbide's research and development activities are company-sponsored. The principal research and development facilities of Union Carbide are indicated in the discussion of Properties (Item 2) of this Form 10-K report. In addition to the facilities specifically indicated there, product development and process technology laboratories are maintained at some plants. Union Carbide expensed $157 million in 1997, $159 million in 1996, and $144 million in 1995 on company-sponsored research activities to develop new products, processes, or services, or to improve existing ones.

Environment—See Costs Relating to Protection of the Environment on pages 12 and 13 of the 1997 annual report to stockholders and Note Seventeen on pages 39 and 40 thereof.

Insurance—Union Carbide's policy is to obtain public liability and other insurance coverage at terms and conditions and a cost that management considers fair and reasonable. Union Carbide's management believes it has a prudent risk management policy in effect, and it periodically reviews its insurance coverage as to scope and amount and makes adjustments as deemed necessary. There is no assurance, however, that Union Carbide will not incur losses beyond the limits, or outside the coverage, of its insurance. Such insurance is subject to substantial corporate retentions.

Competition—Each of the major product and service areas in which Union Carbide participates is highly competitive. In some instances competition comes from manufacturers of the same products as those produced by Union Carbide and in other cases from manufacturers of different products which may serve the same markets as those served by Union Carbide's products. Some of Union Carbide's competitors, such as companies principally engaged in petroleum operations, have more direct access to hydrocarbon feedstocks, and some have greater financial resources than Union Carbide.

The Specialties & Intermediates segment is characterized by differentiated products and is less subject to external changes in supply/demand relationships than the Basic Chemicals & Polymers segment. In this segment, competition is based primarily on product functionality and quality, with the more unique products commanding significant price premiums.

The Basic Chemicals & Polymers segment is characterized by large volume commodity products and is subject to external changes in supply/demand relationships, including changes in the strength of the overall economy, customer inventory levels, industry manufacturing capacity and operating rates and raw material feedstock costs. Participants in this segment compete for business primarily on the basis of price and efficient delivery systems.

See pages 6 through 8 of the 1997 annual report to stockholders for information about each segment's principal products, competitive position and major competitors.

Union Carbide is a major marketer of petrochemical products throughout the world. Products that the corporation markets are largely produced in the United States, while products marketed by the corporation's joint ventures are principally produced outside the United States. Competitive products are produced throughout the world.

Union Carbide's international operations face competition from local producers and global competitors and a number of risks inherent in carrying on business outside the United States, including risks of nationalization, expropriation, restrictive action by local governments and changes in currency exchange rates, in addition to the risks stated above.

Item 2. Properties

In management's opinion, current facilities, together with planned expansions, will provide adequate production capacity to meet Union Carbide's planned business activities. Capital expenditures are discussed on pages 16 and 17 of the 1997 annual report to stockholders.

Listed below are the principal manufacturing facilities operated by Union Carbide worldwide. Research and engineering facilities are noted. Most of the domestic properties are owned in fee. Union Carbide maintains numerous domestic sales offices and warehouses, substantially all of which are leased premises under relatively short-term leases. All principal international manufacturing properties are owned or held under long-term leases. International administrative offices, technical service laboratories, sales offices and warehouses are owned in some instances and held under relatively short-term leases in other instances. The corporation's headquarters is located in Danbury, Connecticut, and is leased.

Principal domestic manufacturing facilities and the principal products manufactured there are as follows:

Location	City	Principal Product(s)
Specialties & Intermediates Segment		
California	Torrance	Latexes
Georgia	Tucker	Latexes
Illinois	Alsip	Latexes
Louisiana	Greensburg	Hydroxyethyl cellulose derivatives
Louisiana	Taft	Acrolein and derivatives, acrylic monomers, caprolactone, UV-cured coatings, cycloaliphatic epoxides, glycol ethers, ethyleneamines, ethanolamines, oxo alcohols
New Jersey	Bound Brook	Polyols, polyethylene compounding
New Jersey	Edison	Lanolin derivatives
New Jersey	Somerset	Latexes
Puerto Rico	Bayamon	Latexes
Texas	Garland	Latexes
Texas	Seadrift	Ethanolamines, glycol ethers, surfactants, polyethylene
Texas	Texas City	Organic acids and esters, alcohols, surfactants, vinyl acetate, solution vinyl resins, heat transfer fluids
Washington	Washougal	Crystals
West Virginia	Institute	Caprolactone derivatives, polyethylene glycol, hydroxyethyl cellulose, polyethylene oxide, surfactants, ethylidene norbornene, glutaraldehyde, acetone and derivatives
West Virginia	South Charleston	Alkyl alkanolamines, brake fluids, miscellaneous specialty products, polyalkylene glycols, surfactants, specialty ketones, polyvinyl acetate resins, heat transfer fluids
Basic Chemicals & Polymers Segment		
Louisiana	Norco (Cypress Plant)	Polypropylene
Louisiana	Taft	Ethylene oxide and glycol, olefins
Louisiana	Taft (Star Plant)	Polyethylene
Texas	Seadrift	Ethylene oxide and glycol, olefins, polyethylene, polypropylene
Texas	Texas City	Olefins

Research and development for the Specialties & Intermediates segment is carried on at technical centers in Bound Brook, Edison and Somerset, New Jersey; Tarrytown, New York; Cary, North Carolina; Houston and Texas City, Texas; and South Charleston, West Virginia. Research and development for the Basic Chemicals & Polymers segment is carried on at technical centers in Bound Brook and Somerset, New Jersey; Houston, Texas; and South Charleston, West Virginia. Process and design engineering for both segments is conducted at a technical center in South Charleston, West Virginia and in Houston, Texas, in support of domestic and foreign projects.

Principal international manufacturing facilities and the principal products manufactured there are as follows:

Country	City	Principal Product(s)
Specialties & Intermediates Segment		
Belgium	Vilvoorde	Lanolin derivatives
Belgium	Zwijndrecht	Hydroxyethyl cellulose
Brazil	Aratu	Hydroxyethyl cellulose
Brazil	Cabo	Vinyl acetate
Brazil	Cubatao	Polyethylene
Ecuador	Guayaquil	Latex
Indonesia	Jakarta	Latex
Malaysia	Seremban	Latex
People's Republic of China	Guangdong	Latex, hydroxyethyl cellulose derivatives
People's Republic of China	Shanghai	Latex
Philippines	Batangas	Latex
Sri Lanka	Colombo	Latex
Thailand	Nonthaburi	Latex
United Arab Emirates	Dubai	Latex
United Kingdom	Wilton	Glycol ethers, ethanolamines
Basic Chemicals & Polymers Segment		
Canada	Prentiss	Ethylene glycol
United Kingdom	Wilton	Ethylene oxide and glycol

Research and development for the Specialties & Intermediates segment is carried on at international facilities in Zwijndrecht, Belgium; Cubatao, Brazil; Montreal East, Canada; Jurong, Singapore and Meyrin (Geneva), Switzerland.

Item 3. Legal Proceedings

See Note Seventeen of Notes to Financial Statements on pages 39 and 40 of the 1997 annual report to stockholders.

Item 4. Submission of Matters to a Vote of Security Holders

The corporation did not submit any matters to a stockholder vote during the last quarter of 1997.

Part II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Market and dividend information for the corporation's common stock is contained on pages 18 to 20 of the 1997 annual report to stockholders. Information about the stock exchanges where the stock is traded in the United States is listed on page 42 of the 1997 annual report to stockholders. The declaration of dividends is a business decision made from time to time by the Board of Directors based on the corporation's earnings and financial condition and other factors the Board considers relevant.

The number of stockholders of record of the corporation's common stock is contained on page 1 of the 1997 annual report to stockholders.

Sales of Unregistered Securities – During 1997, put options were sold to institutional investors in a series of private placements exempt from registration under Section 4(2) of the Securities Act of 1933, entitling the holders to sell 2,710,469 shares of Union Carbide Corporation common stock to the corporation, at prices ranging from $44.50 to $50.00 per share. Premiums received for the sales of the options totaled $3,216,022.

Item 6. Selected Financial Data

Information pertaining to consolidated operations is included under the captions "From the Income Statement," and "From the Balance Sheet", and dividend information is included under the caption "Other Data" in the Selected Financial Data on pages 18 and 19 of the 1997 annual report to stockholders.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

See the information covered in the 1997 annual report to stockholders on pages 9 through 17.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

See the information covered in the 1997 annual report to stockholders on page 11.

Item 8. Financial Statements and Supplementary Data

The consolidated balance sheet of Union Carbide Corporation and subsidiaries at December 31, 1997 and 1996, and the consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1997, together with the report thereon of KPMG Peat Marwick LLP dated January 16, 1998, are contained on pages 21 through 41 of the 1997 annual report to stockholders.

Quarterly income statement data is contained on page 20 of the 1997 annual report to stockholders.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Union Carbide has not had any disagreements covered by this item with KPMG Peat Marwick LLP, its independent auditors.

Part III

Item 10. Directors and Executive Officers of the Registrant

For background information on the Directors of Union Carbide Corporation whose terms are expected to continue after the annual meeting of stockholders and persons nominated to become Directors, see pages 7 through 10 of the proxy statement for the annual meeting of stockholders to be held on April 22, 1998.

The principal executive officers of the corporation are as follows. Data is as of March 19, 1998.

Name	Age	Position	Year First Elected
William H. Joyce	62	Chairman of the Board, President and Chief Executive Officer	1993
Joseph S. Byck	56	Vice-President	1991
James F. Flynn	55	Vice-President	1993
Joseph E. Geoghan	60	Vice-President, General Counsel and Secretary	1987
Malcolm A. Kessinger	54	Vice-President	1991
Lee P. McMaster	55	Vice-President	1993
Joseph C. Soviero	59	Vice-President	1993
Roger B. Staub	63	Vice-President	1993
John K. Wulff	49	Vice-President, Chief Financial Officer and Controller	1988

There are no family relationships between any officers or directors of the corporation. There is no arrangement or understanding between any officer and any other person pursuant to which the officer was elected an officer. An officer is elected by the Board of Directors to serve until the next annual meeting of stockholders and until his successor is elected and qualified.

The table on the next page gives a summary of the positions held during at least the past five years by each officer. Each of the officers has been employed by the corporation or a subsidiary of the corporation for the past five years.

Name	Position	Years Held
William H. Joyce	Chairman of the Board, President and Chief Executive Officer	1996 to present
	President and Chief Executive Officer	1995 to 1995
	President and Chief Operating Officer	1993 to 1995
	President, Union Carbide Chemicals and Plastics Company Inc.	1993 to 1994
Joseph S. Byck	Vice-President	1991 to present
	Vice-President, Union Carbide Chemicals and Plastics Company Inc.	1991 to 1994
James F. Flynn	Vice-President	1993 to present
Joseph E. Geoghan	Vice-President, General Counsel and Secretary	1990 to present
Malcolm A. Kessinger	Vice-President	1991 to present
	Vice-President, Human Resources, Union Carbide Chemicals and Plastics Company Inc.	1990 to 1994
Lee P. McMaster	Vice-President	1993 to present
Joseph C. Soviero	Vice-President	1993 to present
Roger B. Staub	Vice-President	1993 to present
John K. Wulff	Vice-President, Chief Financial Officer and Controller	1996 to present
	Vice-President, Controller and Principal Accounting Officer	1989 to 1996

See "Section 16(a) Beneficial Ownership Reporting Compliance" on page 23 of the proxy statement for the annual meeting of stockholders to be held on April 22, 1998.

Item 11. Executive Compensation

See pages 18 through 21 of the proxy statement for the annual meeting of stockholders to be held on April 22, 1998.

Item 12. Security Ownership of Certain Beneficial Owners and Management

See pages 22 and 23 of the proxy statement for the annual meeting of stockholders to be held on April 22, 1998.

Item 13. Certain Relationships and Related Transactions

See pages 10 and 13 of the proxy statement for the annual meeting of stockholders to be held on April 22, 1998.

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

UNION CARBIDE CORPORATION

(a) The following documents are filed as part of this report:

1. The consolidated financial statements set forth on pages 21 through 40 and the Independent Auditors' Report set forth on page 41 of the 1997 annual report to stockholders are incorporated by reference in this Annual Report on Form 10-K.

2. The Report on Schedule of KPMG Peat Marwick LLP appears on page 10 of this Annual Report on Form 10-K.

3. The following schedule should be read in conjunction with the consolidated financial statements incorporated by reference in Item 8 of this Annual Report on Form 10-K. Schedules other than those listed have been omitted because they are not applicable.

	Page in this Form 10-K Report
Valuation and Qualifying Accounts (Schedule II), three years ended December 31, 1997	11

(b) No reports on Form 8-K were filed for the three months ended December 31, 1997.

(c) Exhibits—See Exhibit Index on pages 13 through 16 for exhibits filed with this Annual Report on Form 10-K.

Report of Independent Auditors

The Board of Directors
Union Carbide Corporation

Under date of January 16, 1998, we reported on the consolidated balance sheets of Union Carbide Corporation and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1997, as contained on pages 21 through 40 in the 1997 annual report to stockholders. These consolidated financial statements and our report thereon are incorporated by reference in the Annual Report on Form 10-K for the year 1997. In connection with our audits of the aforementioned consolidated financial statements, we also have audited the related financial statement schedule as listed in Item 14(a)3. This financial statement schedule is the responsibility of the corporation's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG Peat Marwick LLP

Stamford, Conn.
January 16, 1998

Schedule II—Valuation and Qualifying Accounts

Union Carbide Corporation and Consolidated Subsidiaries

	Balance at beginning of period	Additions: Charged to costs and expenses	Deductions: Items determined to be uncollectible, less recovery of amounts previously written off	Balance at end of period
		Millions of dollars, year ended December 31, 1997		
Allowance for doubtful accounts	$10	$3	$2	$11
		Millions of dollars, year ended December 31, 1996		
Allowance for doubtful accounts	$11	$1	$2	$10
		Millions of dollars, year ended December 31, 1995		
Allowance for doubtful accounts	$11	$5	$5	$11

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Union Carbide Corporation

March 19, 1998

by: John K. Wulff
Vice-President, Chief Financial Officer and Controller

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the corporation and in the capacities indicated on March 19, 1998.

William H. Joyce
Director, Chairman of the Board, President and Chief Executive Officer

John J. Creedon
Director

Robert D. Kennedy
Director

Joseph E. Geoghan
Director, Vice-President, General Counsel and Secretary

C. Fred Fetterolf
Director

Ronald L. Kuehn, Jr.
Director

John K. Wulff
Vice-President, Chief Financial Officer and Controller

Rainer E. Gut
Director

Rozanne L. Ridgway
Director

Vernon E. Jordan, Jr.
Director

James M. Ringler
Director

William S. Sneath
Director

Exhibit Index

Exhibit No.

3.1	Restated Certificate of Incorporation as filed May 2, 1994 (See Exhibit 3.1 of the Corporation's 1994 Form 10-K).
3.2	By-Laws of the Corporation, amended as of December 3, 1996 (See Exhibit 3.2.1 of the Corporation's 1996 Form 10-K).
4.1	Indenture dated as of June 1, 1995, between the Corporation and the Chase Manhattan Bank (formerly Chemical Bank), Trustee (See Exhibit 4.1.2 to the Corporation's Form S-3 effective October 13, 1995, Reg. No. 33-60705).
4.2	The Corporation will furnish to the Commission upon request any other debt instrument referred to in item 601(b)(4)(iii) (A) of Regulation S-K.
4.3.1	Rights Agreement, dated as of July 26, 1989, as amended and restated as of May 27, 1992, between the Corporation and Chase Mellon Shareholder Services, Inc. (successor to Manufacturers Hanover Trust Company), as Rights Agent (See Exhibit 4(a) to the Corporation's Form 8 filed with the Commission on June 1, 1992, file number: 1-10297).
4.3.2	Amendment to Rights Agreement, dated as of December 3, 1996, between the Corporation and Chase Mellon Shareholder Services Inc. as Successor Rights Agent (See Exhibit 99.1 of the Corporation's Form 8-K dated December 3, 1996).
10.1	Indemnity Agreement dated as of December 8, 1997, between the Corporation and James F. Flynn. The Indemnity Agreement filed with the Commission is substantially identical in all material respects, except as to the parties thereto and dates thereof, with Indemnity Agreements between the Corporation and each other person who is a director or officer of the Corporation.
10.2.1	1988 Union Carbide Long-Term Incentive Plan (See Exhibit 10.14.1 of the Corporation's 1993 Form 10-K).
10.2.2	Amendment to the 1988 Union Carbide Long-Term Incentive Plan effective June 1, 1989 (See Exhibit 10.14.2 of the Corporation's 1994 Form 10-K).
10.2.3	Amendment to the 1988 Union Carbide Long-Term Incentive Plan effective August 1, 1989 (See Exhibit 10.14.3 of the Corporation's 1994 Form 10-K).
10.2.4	Resolutions adopted by the Board of Directors of the Corporation on February 26, 1992, with respect to stock options granted under the 1984 Union Carbide Stock Option Plan and the 1988 Union Carbide Long-Term Incentive Plan.
10.2.5	Resolutions adopted by the Compensation and Management Development Committee of the Board of Directors of the Corporation on June 30, 1992, with respect to stock options granted under the 1984 Union Carbide Stock Option Plan and the 1988 Union Carbide Long-Term Incentive Plan.
10.2.6	Amendment to the 1988 Union Carbide Long-Term Incentive Plan effective October 1, 1997.
10.3.1	1983 Union Carbide Bonus Deferral Program (See Exhibit 10.4.1 of the Corporation's 1996 Form 10-K).

Exhibit No.	
10.3.2	Amendment to the 1983 Union Carbide Bonus Deferral Program effective January 1, 1992.
10.4.1	1984 Union Carbide Cash Bonus Deferral Program (See Exhibit 10.5.1 of the Corporation's 1996 Form 10-K).
10.4.2	Amendment to the 1984 Union Carbide Cash Bonus Deferral Program effective January 1, 1986 (See Exhibit 10.5.2 of the Corporation's 1996 Form 10-K).
10.4.3	Amendment to the 1984 Union Carbide Cash Bonus Deferral Program effective January 1, 1992.
10.5.1	Equalization Benefit Plan for Participants of the Retirement Program Plan for Employees of Union Carbide Corporation and its Participating Subsidiary Companies (See Exhibit 10.6.1 of the Corporation's 1996 Form 10-K).
10.5.2	Amendment to the Equalization Benefit Plan effective January 1, 1994 (See Exhibit 10.18.2 of the Corporation's 1994 Form 10-K).
10.6.1	Supplemental Retirement Income Plan (See Exhibit 10.7.1 of the Corporation's 1996 Form 10-K).
10.6.2	Amendment to the Supplemental Retirement Income Plan effective January 1, 1994 (See Exhibit 10.19.3 of the Corporation's 1994 Form 10-K).
10.6.3	Amendment to the Supplemental Retirement Income Plan effective January 1, 1995 (See Exhibit 10.18.3 of the Corporation's 1995 Form 10-K).
10.7	Union Carbide Non-Employee Directors' Compensation Deferral Plan effective February 1, 1997.
10.8	Severance Compensation Agreement, dated February 10, 1998, between the Corporation and Ron J. Cottle. The Severance Compensation Agreement filed with the Commission is substantially identical in all material aspects, except as to the parties thereto and dates thereof, with Agreements between the Corporation and other officers and employees of the Corporation.
10.9	Resolution adopted by the Board of Directors of the Corporation on November 30, 1988, with respect to an executive life insurance program for officers and certain other employees (See Exhibit 10.22 of the Corporation's 1993 Form 10-K).
10.10	1997 Union Carbide Variable Compensation Plan effective July 1, 1997.
10.11.1	Union Carbide Corporation Benefits Protection Trust, amended and restated effective August 29, 1997.
10.11.2	Amendment to the Union Carbide Corporation Benefits Protection Trust effective November 1, 1997.
10.12	Resolutions adopted by the Board of Directors of the Corporation on February 24, 1988, with respect to the purchase of annuities to cover liabilities of the Corporation under the Equalization Benefit Plan for Participants of the Retirement Program Plan for Employees of Union Carbide Corporation and its Participating Subsidiary Companies and the Supplemental Retirement Income Plan (See Exhibit 10.25 of the Corporation's 1994 Form 10-K).
10.13	Resolutions adopted by the Board of Directors of the Corporation on June 28, 1989, with respect to the purchase of annuities to cover liabilities of the Corporation under the Supplemental Retirement Income Plan (See Exhibit 10.26 of the Corporation's 1994 Form 10-K).
10.14.1	Union Carbide Corporation Non-Employee Directors' Retirement Plan (See Exhibit 10.27 of the Corporation's 1994 Form 10-K).
10.14.2	Amendment to the Union Carbide Corporation Non-Employee Directors' Retirement Plan effective May 1, 1997.

Exhibit No.	
10.15.1	1994 Union Carbide Long-Term Incentive Plan (See Exhibit 10.28 of the Corporation's 1994 Form 10-K).
10.15.2	Amendment to the 1994 Union Carbide Long-Term Incentive Plan effective October 1, 1997.
10.16.1	Union Carbide Compensation Deferral Program effective January 1, 1995 (See Exhibit 10.28 of the Corporation's 1995 Form 10-K).
10.16.2	Amendment to Union Carbide Compensation Deferral Program effective January 1, 1995 (See Exhibit 10.17.2 of the Corporation's 1996 Form 10-K).
10.16.3	Amendment to Union Carbide Compensation Deferral Program effective December 31, 1996 (See Exhibit 10.17.3 of the Corporation's 1996 Form 10-K).
10.17	Excess Long-Term Disability Plan effective January 1, 1994 (See Exhibit 10.30 of the Corporation's 1994 Form 10-K).
10.18	1995 Union Carbide Performance Incentive Plan (See Appendix A of the Corporation's proxy statement for the annual meeting of stockholders held on April 26, 1995).
10.19.1	1997 Union Carbide Long-Term Incentive Plan (See Appendix A of the Corporation's proxy statement filed with the Commission March 12, 1997, file number: 001-01463).
10.19.2	Amendment to the 1997 Union Carbide Long-Term Incentive Plan effective April 23, 1997.
10.20	1997 Stock Option Plan for Non-Employee Directors of Union Carbide Corporation (See Appendix B of the Corporation's proxy statement filed with the Commission March 12, 1997, file number: 001-01463).
10.21	1997 Union Carbide Corporation EPS Incentive Plan.
10.22	The Mid-Career Hire Plan for Employees of Union Carbide Corporation and Its Participating Subsidiary Companies, effective December 3, 1996.
10.23.1	Completion Guarantee dated September 15, 1996 by the Corporation and its partner, Petrochemical Industries Company K.S.C., for the benefit of certain banks with respect to construction of a petrochemicals complex in Kuwait (See Exhibit 10.1 of the Corporation's Form 10-Q for the quarter ended September 30, 1996).
10.23.2	Definitions Agreement dated September 15, 1996 among the Corporation and various parties relating to Exhibit 10.23.1 (See Exhibit 10.2 of the Corporation's Form 10-Q for the quarter ended September 30, 1996).
11	Computation of Earnings per Share for the Five Years Ended December 31, 1997.
13	The Corporation's 1997 annual report to stockholders (such report, except for those portions which are expressly referred to in this Form 10-K, is furnished for the information of the Commission and is not deemed "filed" as part of the Form 10-K).
21	Subsidiaries of the Corporation.
23	Consent of KPMG Peat Marwick LLP.
27.1	Financial Data Schedule for the year ended December 31, 1997.
27.2	Restated Financial Data Schedule for the years ended December 31, 1996 and 1995.

27.3 Restated Financial Data Schedule for the nine months ended September 30, 1997, the six months ended June 30, 1997 and the three months ended March 31, 1997.

27.4 Restated Financial Data Schedule for the nine months ended September 30, 1996, the six months ended June 30, 1996 and the three months ended March 31, 1996.

Wherever an exhibit listed above refers to another exhibit or document (e.g., "See Exhibit 6 of . . ."), that exhibit or document is incorporated herein by such reference.

A copy of any exhibit listed above may be obtained on written request to the Secretary's Department, Union Carbide Corporation, Section E-4, 39 Old Ridgebury Road, Danbury, CT 06817-0001. The charge for furnishing any exhibit is 25 cents per page plus mailing costs.

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Union Carbide Corporation

APRIL 20, 1998(?)

"Now, more than ever, our customers know they can count on Carbide people to deliver products, services and chemical expertise that add up to

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Financial Highlights

Dollar amounts in millions (except per share figures)	1997	1996	% Change
For the Year			
Net sales	$ 6,502	$ 6,106	6
Operating profit	1,045	921	13
Income before cumulative effect of change in accounting principle	676	593	14
Per common share – basic	5.02	4.43	13
Per common share – diluted	4.53	3.90	16
Cumulative effect of change in accounting principle	(17)	–	–
Per common share – basic	(0.13)	–	–
Per common share – diluted	(0.12)	–	–
Net income – common stockholders	652	583	12
Per common share – basic	4.89	4.43	10
Per common share – diluted	4.41	3.90	13
Cash dividends on common stock	100	99	1
Per common share	0.7875	0.75	5
Capital expenditures	755	721	5
At Year-End			
Total assets	$ 6,964	$ 6,546	6
Total debt	1,887	1,599	18
Stockholders' equity	2,348	2,114	11
Per common share	17.15	16.72	3
Common shares outstanding (thousands)	136,944	126,440	8
Common stockholders of record	47,713	51,023	(6)
Employees	11,813	11,745	1

At a Glance

Union Carbide Corporation is a worldwide chemicals and polymers company. The company possesses many of the industry's most advanced process and catalyst technologies and some of the most cost efficient, large-scale production facilities in the world. In addition to its consolidated operations, the corporation participates in partnerships and joint ventures whose combined net sales totaled more than $4.3 billion in 1997.

Union Carbide operates two business segments:

Specialties & Intermediates, which accounted for 68 percent of customer revenues and 64 percent of operating profit in 1997, produces a broad range of products, including specialty polyolefins used in wire and cable insulation; surfactants for industrial cleaners; catalysts for the manufacture of polymers; acrolein and derivatives; water-soluble polymers; cellulose-, glucose- and lanolin-based materials for personal care products; specialty coatings; acrylic and vinyl acrylic latex used in paints and adhesives; solvents; vinyl acetate monomer, and ethylene oxide derivatives. This segment also licenses olefins-based technologies and offers other specialized technology licensing and services.

Basic Chemicals & Polymers converts various hydrocarbon feedstocks, principally liquefied petroleum gases and naphtha, into the basic building-block chemicals ethylene and propylene (also known as olefins), which are in turn converted to polyethylene (the world's most widely used plastic), polypropylene (one of the world's fastest-growing plastics), and ethylene oxide and ethylene glycol (used to make polyester fiber, film and resin, and automotive antifreeze). This segment provides ethylene, propylene, ethylene oxide and ethylene glycol to the Specialties & Intermediates segment.

Union Carbide's leading end markets as a percentage of sales are:

Packaging and consumer plastics	24
Paints, coatings and adhesives	21
Wire and cable	11
Textile	9
Household and personal care	6
Automotive, including antifreeze	5
Agriculture and food	4
Oil and gas	3
Industrial cleaners	3

Chairman's Letter

I AM PLEASED TO REPORT THAT CARBIDE HAD ANOTHER GOOD YEAR IN 1997, SURPASSING THE PRIOR YEAR AND POSTING THE THIRD HIGHEST NET INCOME AVAILABLE TO COMMON STOCKHOLDERS OF THE PAST 10 YEARS.

Worldwide sales rose 6.5 percent, to $6.5 billion. Income available to common stockholders from continuing operations (before the effect of a change in accounting principle) rose 14.8 percent from the prior year, to $669 million, and diluted per-share income increased 16.2 percent, to $4.53, before the change in accounting principle.

Despite improved earnings, our 1997 common stock performance was disappointing. We increased the quarterly dividend 20 percent, to 22.5 cents, and repurchased 7 million shares during the year, but our share price increased only 5 percent by year-end.

It seems clear that investors were looking past improved earnings in 1997 and focusing instead on the 1999/2000 cyclical trough anticipated by most experts, and on the widely held expectation that overcapacity in the chemical industry will depress the earnings of companies like Carbide until the cycle turns up.

Adding to investor concerns was the inability of our Specialties & Intermediates (S&I) segment, for the second year in a row, to deliver the strong double-digit earnings growth of prior years, causing investors to doubt that its recovery could occur in time to meet our earnings target in the trough.

And as the year ended, the Asian economic crisis appeared to make the next few years even more difficult for companies such as Carbide with significant sales in the region. Since the Far East region accounts for 14 percent of our sales, mainly exports, we are also concerned. Yet we're confident that Carbide can cope and that our company will be well positioned to participate when the region's growth resumes.

As for 1997 performance, although we posted significant earnings growth, we should have done much better in light of our improvements over the past several years.

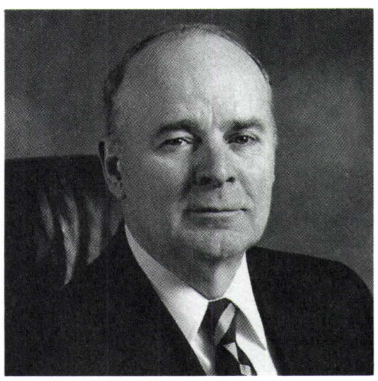
Increases of 5.1 percent in volume and 3.7 percent in productivity for the corporation (based on actual fixed cost per pound of product sold, adjusted for inflation) were good, but below target. And some of our product lines, notably our solvents, monomers and industrial performance chemicals, were unable to deliver targeted results.

Why did we not do better in 1997? And what are we doing to improve and to accelerate profitable growth over the longer term as well?

Management's Discussion & Analysis, beginning on page 9, covers operations in detail. To summarize: The performance of solvents, monomers and industrial performance chemicals products suffered from price declines; abnormally low margins, particularly for solvents and monomers, and the impact of a strong dollar on exports.

Although the strong dollar affected our Basic Chemicals & Polymers (BC&P) segment, as did problems with certain production units, segment earnings were much improved compared to 1996.

DESPITE IMPROVED EARNINGS, OUR 1997 COMMON STOCK PERFORMANCE WAS DISAPPOINTING.



William H. Joyce
CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Startup costs for our huge new petrochemical joint venture in Kuwait also reduced earnings, as did costs associated with the delayed startup of a new facility for producing ethylene/propylene rubber (EPR).

The Kuwait plant is in the final stage of startup at this writing, with both ethylene glycol and polyethylene already shipped to customers in Europe and Asia. And the EPR plant, which uses proprietary new technology to achieve vastly lower production costs, is scheduled for restarting in the fourth quarter of 1998, although further modification is required before that can happen.

On the plus side, the drain on 1997 earnings was partly offset by improved pricing for ethylene glycol, and for polyethylene early in the year, and by the continuing, substantial benefit derived from our work process improvement and cost reduction programs over the past several years.

To say that Carbide has few peers when it comes to improving work processes and reducing costs is only repeating what's often been said by others who follow our progress. Since 1992, total fixed costs have dropped by nearly $8 million, notwithstanding a $1.6 billion increase in revenues and a 27 percent increase in volume. Fixed cost per pound of product sold has dropped by 4.7 cents since the beginning of the decade, a 30 percent decrease. In 1997, costs associated with the Kuwait and EPR startups and other unusual growth expenses reduced earnings by $0.72 per diluted share. Those expenses aside, the fixed cost improvements mean that, given margin conditions no better than the ones faced by BC&P in 1993, Carbide could have earned about three times as much per diluted share in 1997 as we earned in the 1993 trough.

Over the past seven years, we have learned that productivity improvement requires relentless focus on cost reduction throughout the entire enterprise. During this period, virtually every unit within Carbide has established savings initiatives with specific, quantifiable targets. More often than not, as Carbiders have progressed with these efforts, new opportunities have been identified.

In 1990 we embarked on a $200 million savings program. Less than three years into that effort, it was clear that far more significant savings were possible, and a $575 million target was established. That program, dubbed EQAI, was largely completed by the end of 1994, after we had achieved substantially all of the targeted savings. In 1995 we unveiled a new series of initiatives with targeted savings of $637 million, compared to 1993, to be achieved by the year 2000. Last October, after having attained a substantial portion of these targets, we increased the savings goal to $1.1 billion by the year 2000.

Carbiders have time and again shown themselves dedicated to creating value by reducing costs. I am confident that over the next three years they will extend the progress they've made since early in the decade. They have become as skilled as any workforce anywhere at finding ways to improve work processes and reduce costs while delivering the service that our customers expect.

On that score: We track customer evaluations of Carbide very closely, and it's clear that now, more than ever, our customers know they can count on Carbide people to deliver products, services and chemical expertise that add up to more value.

Carbiders take a great deal of pride in those evaluations and in our profit improvement work. And, not incidentally, they also benefit financially as shareholders and profit sharing participants when our company does well. Beyond participation in the profit sharing program, most of our managers, including all senior managers, receive variable compensation based in large part upon our ability to realize returns on capital in excess of our competitors'.

CARBIDERS HAVE TIME AND AGAIN SHOWN THEMSELVES DEDICATED TO CREATING VALUE BY REDUCING COSTS.

While there can be no assurances, if we are successful in achieving our savings targets, we believe that it will be possible also to earn at least $4.00 per diluted share in both 1999 and 2000, the anticipated trough years of the current commodity chemical cycle.

To leave no doubt about management's own commitment to doing what it takes to reach these earnings levels, we have bet a large part of our pay on reaching them. If we fail in 2000, I will forfeit the equivalent of a year's salary, and 16 members of our senior management team each will forfeit the equivalent of 65 percent of a year's base pay. If we succeed, the plan, which investors have encouraged us to implement, has a substantial upside opportunity to go along with the risk.

In other words, Carbide management has real incentive to reach the target.

Although we are committed to our volume growth and savings targets, reaching them will not be easy or assured. But work is under way across our worldwide locations to improve operations, further streamline work processes and make the most of our strong market and technology positions. And much has already been accomplished.

To cite just a few examples: 1997 cost savings in our S&I segment of $336 million, and savings of $302 million for BC&P, kept us ahead of schedule toward our year-2000 cost reduction target.

Regarding programs designed to promote growth, we launched Univation Technologies, our joint venture with Exxon Chemical Company, to develop and license leading-edge polyethylene process and catalyst technologies. Companies in South America and Europe recently selected its technology to build 1.8 billion pounds of capacity.

A major modernization of our UCON fluids manufacturing unit in 1997 increased capacity while cutting operating costs, and the fluids business was named a "supplier of the year" by General Motors, whose cars use our UCON brake fluids and UCON refrigeration lubricants.

At our Taft, La., plant, we completed a 200-million-pound-capacity ethanolamines unit, strengthening our leading position as a supplier to the gas treating and personal care markets. Also at Taft, we are scheduled to complete by mid-1998 a new CARBOWAX polyethylene glycols (PEGs) facility to support sales flowing from new PEG applications in pharmaceuticals and wood treating.

Our polypropylene units ran at high rates during the year, with added capacity, achieved through de-bottlenecking, that will help the business meet its year-2000 growth targets.

Construction began at Taft on a new butanol facility, planned for startup in mid-1999, that will bring Carbide's total butanol capacity to 1.2 billion pounds, the world's largest. Butanol is a key raw material in the manufacture of solvents and monomers used by the paints and coatings industries. Employing our proprietary LP OXO Process technology, the 300-million-pounds-per-year facility is designed to be among the world's most cost effective.

Dr. David Bryant, the Carbide scientist who played a key role in developing OXO technology, has been named 1998 winner of the Perkin Medal — one of the chemical industry's most prestigious honors — for his achievement.

In 1997 we expanded capacity for producing propionic acid, a key ingredient in the production of feed and food additives, herbicides and chemical intermediates.

OUR PARALLEL AGENDA IS TO KEEP IMPROVING CARBIDE'S ENVIRONMENTAL AND SAFETY PERFORMANCE.

We are completing modernization of our ethylene oxide and derivatives units at Wilton in the United Kingdom, and a new glycol unit is on schedule for second-quarter 1998 startup. And we are concluding new long-term glycol supply agreements to support the added capacity represented by Wilton and our EQUATE joint venture in Kuwait.

Work is also under way to expand capacity at Seadrift, Tex., and at Wilton, for butyl glycol ethers, widely used in industrial coatings and as industrial cleaners. In addition, we have just announced plans to build a world-scale methylmercapto propionaldehyde (MMP) unit at Seadrift. This unit will supply MMP, an amino acid precursor, to Novus International for the manufacture of a feed supplement.

We are confident that these and many other projects undertaken in 1997 will help to keep us on course toward our near-term growth and profitability targets.

Our parallel agenda as a RESPONSIBLE CARE company is to keep improving Carbide's environmental and safety performance. The year just ended marked six years in a row without a major process incident. But there were disappointments as well, chiefly a death that occurred in a forklift accident — at a latex plant of a Union Carbide affiliate company in China — after five consecutive years without a fatality in any of our operations.

(For more information about our 1997 environmental and safety performance, write to Carbide's Public Affairs Department for our RESPONSIBLE CARE progress report.)

All of us were pleased and proud to have our TRITON surfactants business receive two environmental awards in 1997. One, from the Environmental Protection Agency (EPA), recognized Carbide's TRITON splittable surfactants as an innovation in surfactant chemistry that greatly reduces risk to the aquatic environment. The other, from the Office of the Vice President of the U.S., recognized the TRITON surfactant-based partnership we entered into with the EPA to control environmental risk so that more regulation and its cost to business and the public would become unnecessary.

Finally, I wish to applaud two of our directors — John Creedon and Bill Sneath — who, in accordance with the board's retirement policy, will not stand for reelection. Both have given outstanding service to the corporation, with Bill's tenure including 31 years of service as an employee, five of those as Chairman and CEO. We will miss their support and wise counsel.

W. H. Joyce

William H. Joyce
Feb. 25, 1998

Chemical Glossary

Alcohols
Chemicals, such as butanol, ethanol and isopropanol, that serve as solvents and intermediates for the manufacture of personal care products, pharmaceuticals, esters, ketones, monomers for latexes, herbicides, petroleum additives and synthetic lubricants.

Biocides
Chemicals used to control or inhibit the growth of bacteria, algae, fungi and mold.

Chemical intermediates
Chemicals formed or introduced as an intermediate step between the starting material and the final product in chemical processing. Examples include:

- **Acrolein**, used to make glutaraldehyde, animal feed supplements and coatings resins.
- **Esters**, such as ethyl acetate and butyl acrylate, made by reacting alcohols and acids and used primarily as paints and coatings solvents.
- **Ethanolamines**, reaction products of ethylene oxide and ammonia, used in detergents and other cleaning materials, in personal care products and for removal of sulfur and other impurities from natural gases for consumer use.
- **Ethyleneamines**, made from ethylene oxide or ethylene dichloride and used in a wide range of industrial products, including fuel, lubricant and motor oil additives, adhesives, wet-strength paper resins and paints.

Ethylene glycol
Chemical made from ethylene oxide and water. It is used in the manufacture of polyester resins, film and fiber, automotive antifreeze and engine coolants and aircraft deicing/anti-icing fluids.

Ethylene oxide
Chemical made from ethylene and oxygen. It combines with other chemicals to produce a wide range of products, such as ethylene glycol, water-soluble polymers for personal care products and surfactants for detergents and cleaning products.

Glutaraldehyde
An acrolein derivative predominantly used as a biocide for industrial water treatment and in oil field applications, animal housing sanitizers, surgical instrument sterilants and paper manufacturing.

Glycol ethers
Solvents used in higher-technology coating applications, such as waterborne industrial finishes for the automotive market, and noncoating applications, such as in hard surface cleaners, military jet fuels and brake fluids.

Ketones
Chemicals, such as acetone, used as solvents for vinyl resins, industrial lacquers and pharmaceuticals, and as an intermediate for resins, dyes and rubber chemicals.

Monomer
Reactive chemical that can be converted into a polymer. For example, ethylene is a monomer that is made into polyethylene.

Olefins
Generic name for ethylene, propylene and other unsaturated hydrocarbons (carbon atoms joined by double bonds) made from components of petroleum or natural gas.
Examples include:

- **Ethylene and propylene**, chemicals derived from natural gases or petroleum components, and the starting materials from which most of Union Carbide's chemicals and polymers are made.

Oxo alcohols, aldehydes and acids
Chemicals Carbide manufactures via its LP OXO Process, such as butanol and propionic acid, which are used as chemical intermediates and industrial solvents.

Polymers
Chains or networks of linked monomers. All plastics are polymers. Examples include:

- **Polyethylene**, the world's most widely used plastic, made by the reaction of ethylene and other olefins. It is used in hundreds of consumer and industrial products, including grocery and trash bags, waste containers, housewares, bottles, drums, food packaging and wire and cable insulation and jacketing. Union Carbide produces most of its polyethylene via UNIPOL Process technology developed by the company in the early 1970's, which is licensed to polyethylene makers around the world.
- **Polypropylene**, a fast-growing, high-volume plastic made from the reaction of propylene and other olefins. The broad range of applications includes lawn furniture, carpet fiber and backing, food containers, toys, appliance housings and binding materials. Much of Union Carbide's production is via the UNIPOL PP Process, also licensed around the world.

Solvents
Chemicals used to dissolve or absorb other chemicals. For example, ketones, esters, alcohols and glycol ethers are effective solvents commonly used in paints and coatings.

Surfactants
Chemicals that increase the cleaning and wetting properties of household and industrial cleaners and detergents. They are used also in textile and paper processing, paints and agricultural products. Surfactants also are used in cosmetics, shampoos and other personal care products. Carbide makes its surfactants primarily from ethylene oxide and alcohols.

Major Competitors

Specialties & Intermediates

Air Products
AT Plastics
BASF
Borealis AS
British Petroleum
Clariant
DeGussa
Dow Chemical
Eastman Chemical
Equistar Chemicals
Hercules
Hoechst Celanese
Huntsman
Mitsui Petrochemical
Montell Polyolefins
National Starch & Chemical
Phillips Chemicals
Reichhold Chemicals
Rhône-Poulenc
Rohm & Haas
Shell Chemical
Solvay
Ube Industries
Wacker

Basic Chemicals & Polymers

Amoco
Dow Chemical
Equistar Chemicals
Exxon Chemical
Fina
Huntsman
Mobil Chemical
Montell Polyolefins
NOVA Chemicals
Occidental Chemical
Phillips Chemicals
Saudi Basic Industries
Shell Chemical

Principal Products & Services

Specialties & Intermediates Segment

Union Carbide's **Specialty Polymers and Products** group manufactures and markets numerous specialty products. Many of its technologies are targeted for sharply defined market segments.

- **Specialty Industrial Products** produces acrolein and derivatives, such as methylmercapto propionaldehyde (MMP), for the manufacture of an amino acid used in animal feed supplements; glutaraldehyde, a biocide; ethylidene norbornene (ENB), used in the production of ethylene propylene rubber, and specialty ketones.

- **Performance Polymers** produces POLYOX water-soluble resins, used in personal care products, pharmaceuticals, inks and thermoplastics. It also produces polyvinyl acetate resins, used in chewing-gum resins, low-profile additives, NEULON polyester modifiers, fast-cure additives and pigmentable systems, and UCURE reactive modifiers.

- **Coating Materials** reaches markets for paints, coatings, inks, substrates and other materials for magnetic tape, food and beverage packaging, plastics and orthopedic materials. Its products include CELLOSIZE hydroxyethyl cellulose (HEC); UCAR solution vinyl resins; TONE caprolactone-based materials; cycloaliphatic epoxides, including CYRACURE ultraviolet-curing products, and FLEXOL plasticizers.

- **Amerchol Corporation**, a Union Carbide subsidiary, manufactures and sells a wide variety of cellulose-, glucose- and lanolin-based materials for personal care products.

Ucar Emulsion Systems makes products used in interior and exterior house paints, adhesives and sealants. They include UCAR POLYPHOBE rheology modifiers, used to thicken coatings, and UCAR latex products, used as binders and to impart exterior durability, scrub and stain resistance, and adhesion.

Specialty Polyolefins manufactures and markets worldwide a variety of performance polyolefin products. Chief among these are polyolefin-based compounds for sophisticated insulation, semiconductives and jacketing systems for power distribution, telecommunications and flame-retardant wire and cable. Other Specialty Polyolefins products are used in adhesives, laminating film and flexible tubing.

UNIPOL Systems owns and develops UNIPOL Process technology, the most versatile method of manufacturing polyethylene and polypropylene, for producers of these products worldwide. It also develops new process technology for the manufacture of other olefins-based polymers, such as ethylene propylene rubber, and sells catalysts to UNIPOL Process licensees worldwide. Licensing of UNIPOL PE and PP Processes, as well as the development of new PE technologies, such as metallocene catalysis and Super Condensed Mode Technology, is handled through Univation Technologies, LLC, a Union Carbide/Exxon Chemical Company joint venture.

Industrial Performance Chemicals manufactures and sells a broad range of ethylene oxide derivatives and formulated glycol products for specialty applications. These include CARBOWAX polyethylene glycols, with a wide range of applications in pharmaceutical, personal care, household and industrial markets; ethanolamines, for detergents, personal care products and natural gas conditioning and refining; ethyleneamines, for many industrial uses; TERGITOL and TRITON specialty and commodity surfactants, for institutional and household cleaning products and other industrial applications; UCON fluids and lubricants, and alkyl alkanolamines for water-treating chemicals. Formulated glycol products include UCAR and UCAR ULTRA+ deicing and anti-icing fluids for the aviation industry, UCARTHERM and NORKOOL heat-transfer fluids, and gas-treating products, including UCARSOL and SELEXOL solvents.

SOLVENTS, INTERMEDIATES AND MONOMERS (SIM) supplies one of the industry's broadest product lines of solvents, intermediates and monomers. Its products include aldehydes, acids and alcohols, including high-quality industrial-grade synthetic and fermentation ethanol; esters; glycol ethers (brake fluids and CARBITOL and CELLOSOLVE solvents); ketones, and monomers (vinyl acetate and acrylics for waterborne coatings). Its principal customers are the paints and coatings industries. Many of SIM's products are also used widely in cosmetics and personal care preparations, adhesives, household and institutional products, drugs and pharmaceuticals; as fuel and lube oil additives, and in agricultural products. The UNICARB System is a pollution-reducing, supercritical fluid technology that can cut costs and reduce volatile organic compounds (VOCs) in spray-applied coatings by up to 80 percent.

BASIC CHEMICALS & POLYMERS SEGMENT

Union Carbide's **HYDROCARBONS** group manufactures about two thirds of the company's ethylene requirements and almost one third of its propylene requirements. Ethylene and propylene are the key raw materials for many of Union Carbide's businesses.

Union Carbide is the world's leading producer of ethylene oxide and ethylene glycol, supplied by the **ETHYLENE OXIDE/GLYCOL** group. Ethylene oxide is a chemical intermediate primarily used in the manufacture of ethylene glycol, polyethylene glycol, glycol ethers, ethanolamines, surfactants and other performance chemicals and polymers. Ethylene glycol is used extensively in the production of polyester fiber, resin and film, automotive antifreeze and engine coolants, and aircraft anti-icing and deicing fluids. Other ethylene oxide-based glycol products include di-, tri-, and tetraethylene glycols, used as chemical intermediates and in dehydrating natural gas.

Union Carbide is a leading manufacturer of polyethylene, the world's most widely used plastic. ***UNIPOL* POLYMERS** produces and markets linear low-, medium- and high-density polyethylenes, used in high-volume applications such as housewares, milk and water bottles, grocery sacks, trash bags, packaging, water and gas pipe, and FLEXOMER very low-density resins, used as a polymer modifier in other polyolefins and to produce flexible hose and tubing, frozen-food bags and stretch wrap.

Carbide's **POLYPROPYLENE RESINS** operations manufacture and sell polypropylene, one of the world's largest-volume, fastest-growing plastics. End-use applications include carpeting and upholstery, apparel, packaging films, food containers, housewares and appliances, and automobile interior trim and panels.

For a summary of business and geographic segment data, see NOTE FIVE *to the financial statements.*

; & Joint Ventures

MANY YEARS PARTICIPATED IN A NUMBER OF BUSINESSES THROUGH PARTNERSHIPS AND JOINT
NS HAVE ENABLED UNION CARBIDE TO COMBINE ITS COMPETITIVE STRENGTHS IN TECHNOLOGY,
ERATIONAL KNOW-HOW WITH THE COMPLEMENTARY STRENGTHS OF ITS PARTNERS.

ips and joint ventures of the
ent include:

le supplier of process technology,
orbents to the petrochemical and
jointly with AlliedSignal Inc. UOP
Anaheim and Eldorado Hills, Calif.;
reveport, La.; Tonawanda, N.Y.;
oria, Italy, and Brimsdown, U.K.

MITED ■ a Japan-based producer
thylene resins and specialty silicone
Tonen Corporation has a facility in

France-based producer of specialty
ith Elf Atochem has a facility in

■ a U.S.-based partnership with
ny that supplies ethanol worldwide.
xas City, Tex. and Peoria, Ill.

LC ■ a U.S.-based joint venture
or the research, development, mar-
ne technology and metallocene
n Mont Belvieu, Tex.

. South Korea-based producer of
e production of emulsion resins by
esives industries. This joint venture
Fine Chemicals Company has a

The most significant partnerships and joint ventures of the Basic Chemicals & Polymers segment include:

POLIMERI EUROPA S.R.L. ■ a Europe-based producer of ethylene and polyethylene resins. This joint venture with EniChem S.p.A. of Italy has facilities at Dunkirk, France; Oberhausen, Germany; and Brindisi, Ferrara, Gela, Priolo and Ragusa, Italy.

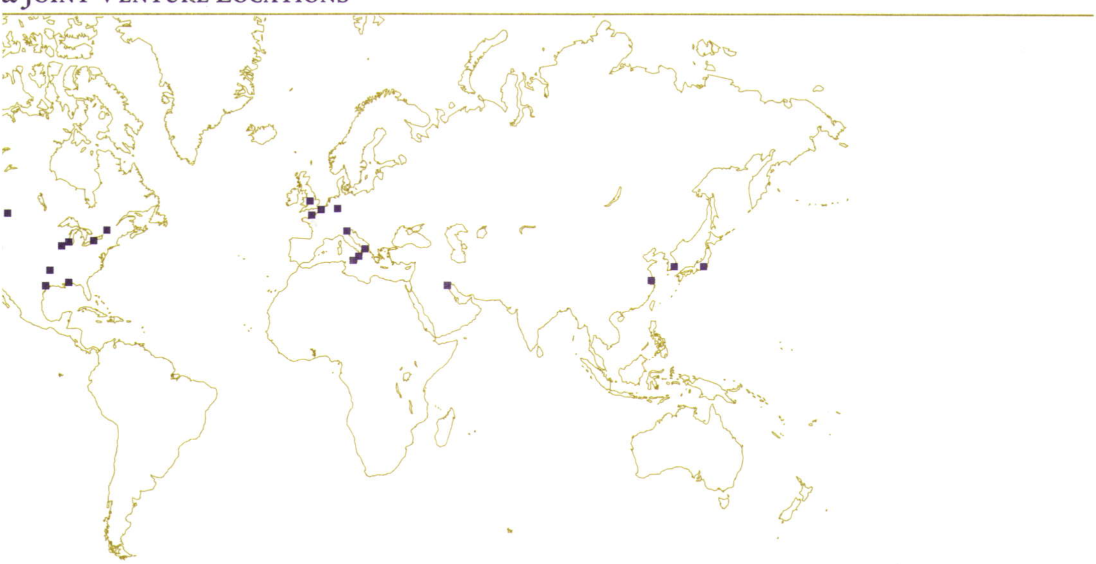
EQUATE PETROCHEMICAL COMPANY K.S.C. ■ a joint venture with Petrochemical Industries Company and Boubyan Petrochemical Company that manufactures polyethylene and ethylene glycol at its world-scale petrochemicals complex in Shuaiba, Kuwait.

PETROMONT AND COMPANY, LIMITED PARTNERSHIP ■ a Canada-based olefins and polyethylene resins producer owned jointly with Ethylec Inc. This partnership has facilities at Montreal and Varennes, Quebec, Canada.

ALBERTA & ORIENT GLYCOL COMPANY LIMITED ■ a joint venture with Mitsui & Co., Ltd., Japan, and Far Eastern Textile Ltd., Taiwan. This Canada-based producer of ethylene glycol has a facility in Prentiss, Alberta, Canada.

For a summary of partnership and joint venture results for the past three years, *see pages 14, 15 and* NOTE EIGHT *to the financial statements.*

& JOINT VENTURE LOCATIONS



Results of Operations

Millions of dollars (except per share figures) for the year ended December 31,	**1997**	1996	1995
Net sales	**$ 6,502**	$6,106	$5,888
Operating profit[(a)]	**1,045**	921	1,348
Interest expense	**79**	76	89
Income before provision for income taxes	**966**	845	1,259
Income before cumulative effect of change in accounting principle	**676**	593	925
Net income	**659**	593	925
Net income – common stockholders	**652**	583	915
Per share – basic –			
income before cumulative effect of change in accounting principle	**$ 5.02**	$ 4.43	$ 6.65
Net income – common stockholders	**4.89**	4.43	6.65
Per share – diluted –			
income before cumulative effect of change in accounting principle	**4.53**	3.90	5.85
Net income – common stockholders	**4.41**	3.90	5.85

a) See NOTE FIVE *to the financial statements for a discussion of the special items included in operating profit.*

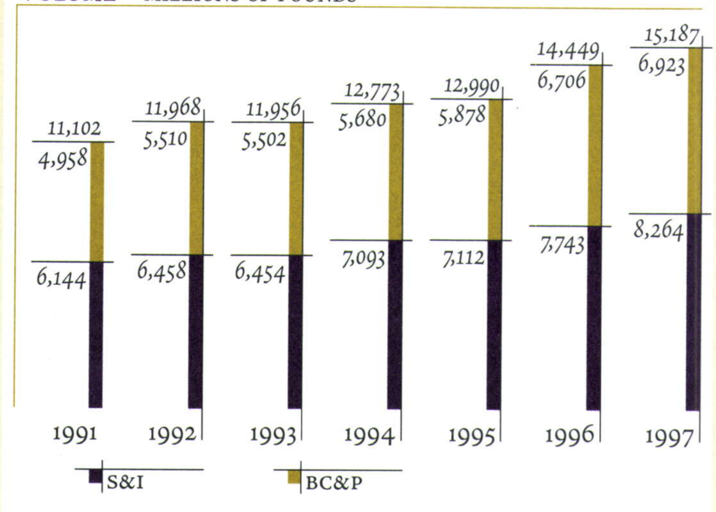
Summary and Outlook

Union Carbide operates two business segments. Specialties & Intermediates converts basic and intermediate chemicals into a diverse portfolio of chemicals and polymers serving industrial customers in many markets. This segment also provides technology services, including licensing, to the oil and petrochemicals industries. Basic Chemicals & Polymers converts hydrocarbon feedstocks, principally liquefied petroleum gas and naphtha, into ethylene or propylene and then into polyethylene, polypropylene, ethylene oxide and ethylene glycol for sale to third-party customers, as well as ethylene, propylene, ethylene oxide and ethylene glycol for consumption by the Specialties & Intermediates segment. In contrast to those of Specialties & Intermediates, the revenues and operating profit of Basic Chemicals & Polymers tend to be more cyclical and very sensitive to a number of external variables, including overall economic demand, hydrocarbon feedstock costs, industry capacity increases and plant operating rates.

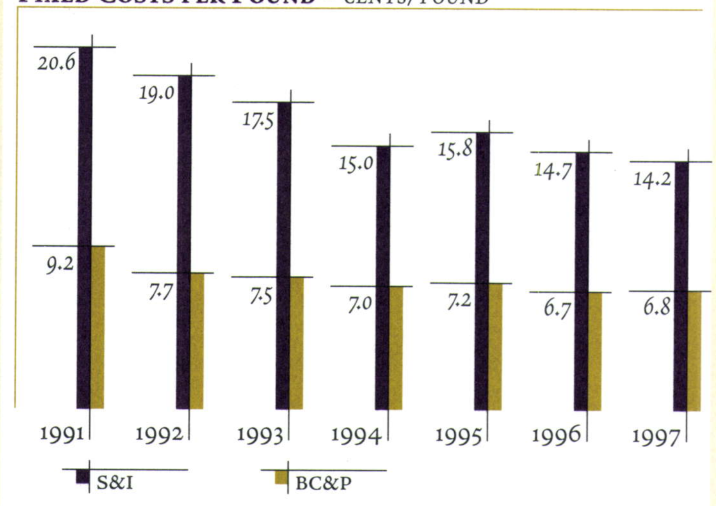
Segment results were mixed in 1997 with Basic Chemicals & Polymers reporting substantially improved operating profit as compared with 1996 while Specialties & Intermediates operating profit decreased 10.1 percent. The Basic Chemicals & Polymers business benefited from increased ethylene glycol prices throughout the first three quarters of 1997 and improved polyethylene pricing through the first half of the year. In addition, the segment experienced reduced average feedstock costs versus 1996. Specialties & Intermediates operating profit was adversely impacted by increased raw material costs, most significantly ethylene oxide transferred from the Basic Chemicals & Polymers segment at approximate market value, higher energy costs and shipment disruptions associated with railroad problems in the U.S. Gulf Coast region. Average selling prices for the Specialties & Intermediates segment were negatively impacted by a much stronger U.S. dollar as well as by increased competition, principally in the segment's solvents, intermediates and monomers product lines. On a consolidated basis, sales volumes increased by 5.1 percent, while fixed cost per pound sold declined to 10.8 cents, the lowest of this decade. Partnership income remained strong, excluding certain costs, principally research and development, assumed by our new technology venture, Univation Technologies, LLC. Additionally, the improved earnings from our equity companies represented increases in earnings of Polimeri Europa partially offset by increased preoperating expenses associated with EQUATE Petrochemical Company.

In 1996 the corporation's earnings were adversely impacted by declines in selling prices, particularly for ethylene glycol, polyethylene and vinyl acetate monomer, and by high raw material and energy costs. These factors significantly impacted Basic Chemicals & Polymers operating profit and limited Specialties & Intermediates operating profit growth. Sales volumes experienced their largest increase in the past decade, while productivity, as measured by fixed cost per pound of product sold, also improved. Partnerships continued to report strong profits, while equity company results declined due to the preoperating costs of EQUATE and increased raw material costs for Polimeri Europa.

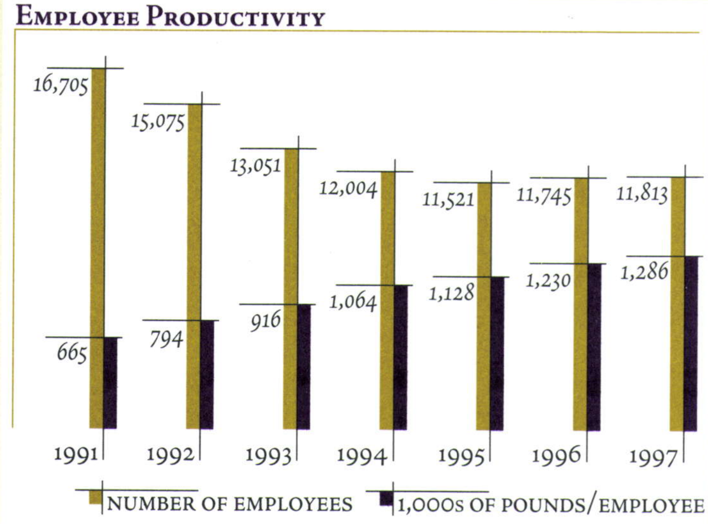
VOLUME – *MILLIONS OF POUNDS*



FIXED COSTS PER POUND – *CENTS/POUND*



EMPLOYEE PRODUCTIVITY



In 1995 the corporation's profitability benefited from improved pricing in virtually all product groups, with particular strength in polyethylene through midyear and ethylene oxide and ethylene glycol throughout the year, modest volume increases, lower average feedstock costs, continued benefits from ongoing productivity improvement programs and strong partnership earnings. In addition, 1995 net income was enhanced by a nonrecurring after-tax gain associated with the sales of the corporation's investment in UCAR International Inc., partially offset by a number of nonrecurring after-tax losses.

Highlights of 1997 included:

- Completion of an ethanolamines unit at Taft, La.
- Startup of the EQUATE facility in Shuaiba, Kuwait
- Formation of Univation Technologies, LLC, a 50-50 joint venture with Exxon Chemical Company to research, develop, market and license leading-edge technologies and metallocene catalysts for the production of polyethylene
- Signing of a joint undertaking with NOVA Chemicals, Ltd., to construct, own and operate a new 2.8-billion-pounds-per-year ethylene production facility in Joffre, Alberta, Canada
- Increase in the quarterly dividend per common share from $0.1875 to $0.225
- Repurchase of 7.0 million common shares, bringing the total number of shares repurchased since the beginning of 1993 to 49.3 million
- Conversion of preferred shares held by the Employee Stock Ownership Plan (ESOP) into the corporation's common shares
- Announcement of a new plan to increase the target for annual net savings to $1.1 billion by year-end 2000, as compared with 1993, and better-than-planned progress toward achievement of this target

As 1998 progresses, pricing for Basic Chemicals & Polymers products is expected to continue to decline. The pace and extent of the drop cannot be predicted with any accuracy and is dependent in part on developments in Asian Pacific economies, which are major markets for these products. Feedstock costs are expected to decline at least modestly from fourth quarter 1997 levels. Specialties & Intermediates operating profit in 1998 should benefit somewhat from a decline in raw material and energy prices. Moreover, the corporation expects continued strong performance from the Specialties & Intermediates partnerships as a group, and from licensing activities. However, as is the case with Basic Chemicals & Polymers, the ability to anticipate future results with any accuracy is dependent on the resolution and stabilization of Asian Pacific market conditions.

The corporation regularly reviews its assets with the objective of maximizing the deployment of resources in core operations. In this regard, UCC continues to consider strategies and/or transactions with respect to certain noncore assets and other assets not essential to the operation of the business that, if implemented, could result in material nonrecurring gains or losses.

Quantitative and Qualitative disclosures about market risk

The corporation selectively uses derivative financial instruments to manage its exposure to market risk related to changes in foreign currency exchange rates and interest rates. The corporation does not hold derivatives for trading purposes. The value of market sensitive derivative instruments is subject to change as a result of movements in market rates and prices. Sensitivity analysis is one technique used to evaluate these impacts. Based on a hypothetical 10 percent weakening in the U.S. dollar across all currencies or a 10 percent increase in interest rates, the potential losses in future earnings, fair values and cash flows would not be material. This methodology has limitations; for example, a weakening U.S. dollar would benefit future earnings through favorable translation of non-U.S. operating results.

Foreign Operations

A portion of the financial results of each of the corporation's segments is derived from activities conducted outside the U.S. and denominated in currencies other than the U.S. dollar. Because the financial results of the corporation are reported in U.S. dollars, they are affected by changes in the value of the various foreign currencies in relation to the U.S. dollar. Exchange rate risks are lessened, however, by the diversity of the corporation's foreign operations and the fact that international activities are not concentrated in any single non-U.S. currency. In addition, the effects of a strengthening U.S. dollar could cause pricing pressures on worldwide chemical markets which could result in declines in the corporation's sales volumes.

The corporation is subject to other risks customarily associated with doing business in foreign countries, including local labor and economic conditions, unfavorable changes in foreign tax laws, and possible controls on repatriation of earnings and capital. Future losses associated with such risks, if any, cannot be predicted.

Specialties & Intermediates

Millions of dollars	**1997**	1996	1995
Sales	**$4,453**	$4,286	$4,123
Depreciation and amortization	**214**	188	194
Operating profit	**667**	742	709
Capital expenditures	**458**	522	392
Identifiable assets	**4,146**	3,892	3,527

1997 Compared with 1996

Sales of the Specialties & Intermediates segment increased 3.9 percent, as a result of a 6.7 percent increase in volume offset by lower average selling prices. Average selling price reductions were due in part to a strengthening of the U.S. dollar against currencies such as the German Deutschemark and Japanese Yen, as well as by increased competition in solvents, intermediates and monomers product lines. Additionally, shipments for this segment's products were affected by rail problems in the U.S. Gulf Coast region. Variable margin (revenues less variable manufacturing and distribution costs) as a percentage of sales declined 2.2 percentage points, from 44.6 percent in 1996 to 42.4 percent in 1997, while gross margin (variable margin less fixed manufacturing and distribution costs) as a percentage of sales declined 2.4 percentage points to 24.6 percent in 1997. Increases in the market-related transfer cost of raw materials produced by the Basic Chemicals & Polymers segment, as well as the increasing cost of natural gas, significantly affected these margins. Fixed manufacturing and distribution costs for this segment increased 5.3 percent, or $40 million, from the previous year's levels.

Selling, administration and other expenses (SA&O) for this segment decreased $5 million, or 2.0 percent. Research and development expenditures decreased $2 million, to $126 million, mainly attributable to costs assumed by the corporation's new technology venture, Univation Technologies.

Operating profit decreased $75 million, or 10.1 percent, to $667 million from $742 million in 1996. The current year operating profit includes a charge of $12 million for the write-off of certain equipment associated with the corporation's ethylene propylene rubber project.

1996 Compared with 1995

Revenues of the Specialties & Intermediates segment increased 4.0 percent, the result of an 8.9 percent increase in volume partially offset by a 4.7 percent decline in average selling prices. The reduction in average selling prices reflected the combined effect of increases in sales of lower priced products and declines in prices of certain products from the unusually high levels experienced in 1995. Variable margin as a percentage of sales dropped by 1.6 percentage points, from 46.2 percent in 1995 to 44.6 percent in 1996, while gross margin as a percentage of sales declined by 0.8 percentage points, to 27.0 percent in 1996 from 27.8 percent in 1995. Fixed manufacturing and distribution costs were held at 1995 levels.

The segment's 1996 SA&O decreased $45 million, or 15.1 percent, because of the inclusion in 1995 SA&O of a nonrecurring $48 million charge for postemployment benefits. Excluding this charge, SA&O increased $3 million, or 1.2 percent. Research and development expenditures increased $14 million, to $128 million.

Operating profit increased in 1996 to $742 million from $709 million in 1995.

Basic Chemicals & Polymers

Millions of dollars	**1997**	1996	1995
Sales	**$2,420**	$2,125	$2,080
Depreciation and amortization	**126**	124	112
Operating profit	**386**	162	444
Capital expenditures	**297**	199	150
Identifiable assets	**2,540**	2,328	2,095

1997 Compared with 1996

Sales of the Basic Chemicals & Polymers segment increased 13.9 percent, largely as a result of a 9.2 percent increase in average customer selling price coupled with a 3.2 percent increase in customer volume. The increase in average customer selling price reflects the strong increase in ethylene glycol pricing during the first three quarters of 1997 and improved polyethylene pricing throughout the first half of the year. Variable margin as a percentage of sales increased to 39.9 percent from 34.6 percent in 1996. Overall, this segment benefited from an increase in gross margin as a percentage of sales to 25.0 percent, compared with only 18.2 percent in 1996. Fixed manufacturing and distribution costs increased by 3.7 percent.

The segment's SA&O increased $8 million, or 11.9 percent, over the 1996 amount. Research and development expenditures were unchanged from the prior year.

Operating profit of $386 million in 1997 represented an increase of over 100 percent from the prior year.

1996 Compared with 1995

Revenues of the Basic Chemicals & Polymers segment increased 2.2 percent, due to a 14.1 percent increase in customer volume, 11.5 percent of which was due to the January 1996 acquisition of the polypropylene business of Shell Oil Company, offset by a 9.7 percent decrease in selling prices. Variable margin as a percentage of sales declined from 46.4 percent in 1995 to 34.6 percent in 1996. Ethylene glycol selling prices declined throughout the first three quarters of 1996. While polyethylene prices improved beginning in the second quarter of 1996, they nonetheless averaged below 1995 levels for the full year. Raw material and energy costs rose during 1996, especially in the fourth quarter. Gross margin as a percentage of sales declined to 18.2 percent in 1996 as compared with 30.8 percent in 1995. Fixed manufacturing and distribution costs increased $24 million, or 7.4 percent, from 1995 to 1996, principally due to the acquisition of Shell's polypropylene assets and business.

SA&O decreased $20 million, or 23.0 percent, versus 1995. Prior year SA&O included a nonrecurring $20 million charge for postemployment benefits. Research and development expenditures increased $1 million, to $31 million.

Operating profit declined to $162 million in 1996 from $444 million in 1995.

Other

Millions of dollars for the year ended December 31,	**1997**	1996	1995
Operating profit (loss)	**$(8)**	$17	$195

The Other segment includes the operating profit (loss) of noncore activities and financial transactions. The 1995 operating profit included a nonrecurring pre-tax gain of $381 million from the sales of the corporation's remaining interest in UCAR International Inc., partially offset by a $191 million charge for unused office space, principally at the corporation's headquarters.

Costs Relating to Protection of the Environment

Worldwide costs relating to environmental protection continue to be significant, due primarily to stringent laws and regulations and to the corporation's commitment to industry initiatives such as RESPONSIBLE CARE, as well as to its own internal standards. In 1997, worldwide expenses related to environmental protection for compliance with Federal, state and local laws regulating solid and hazardous wastes and discharge of materials to air and water, as well as for waste site remedial activities, totaled $100 million. Expenses in 1996 and 1995 were $110 million and $138 million, respectively. Such expenses were material to operating results in 1997, 1996 and 1995, and will be material to operating results in future years. In recent years, such environmental expenses have decreased as the corporation has made progress toward completing major remediation projects. In addition, worldwide capital expenditures relating to environmental protection, including those for new capacity and cost reduction and replacement, in 1997 totaled $68 million, compared with $43 million and $49 million in 1996 and 1995, respectively.

The corporation, like other companies in the U.S., periodically receives notices from the U.S. Environmental Protection Agency and from state environmental agencies, as well as claims from other companies, alleging that the corporation is a potentially responsible party (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act and equivalent state laws (hereafter referred to collectively as Superfund) for past and future cleanup costs at hazardous waste sites at which the corporation is alleged to have disposed of, or arranged for treatment or disposal of, hazardous substances. The corporation is also undertaking environmental investigation and remediation projects at hazardous waste sites located on property currently and formerly owned by the corporation pursuant to Superfund, as well as to the Resource Conservation and Recovery Act and equivalent state laws.

There are approximately 117 hazardous waste sites at which management believes it is probable or reasonably possible that the corporation will incur liability for investigation and/or remediation costs. The corporation has established accruals for those hazardous waste sites where it is probable that a loss has been incurred and the amount of the loss can reasonably be estimated. The reliability and precision of the loss estimates are affected by numerous factors, such as the stage of site evaluation, the allocation of responsibility among PRPs and the assertion of additional claims. The corporation adjusts its accruals as new remediation requirements are defined, as information becomes available permitting reasonable estimates to be made, and to reflect new and changing facts.

At Dec. 31, 1997, the corporation's accruals for environmental remediation totaled $264 million ($310 million in 1996). Approximately 55 percent of the accrual (58 percent in 1996) pertains to estimated future expenditures for site investigation and cleanup, and approximately 45 percent (42 percent in 1996) pertains to estimated expenditures for closure and postclosure activities. See NOTE SEVENTEEN to the financial statements for a discussion of the environmental sites for which the corporation has remediation responsibility. In addition, the corporation had environmental loss contingencies of $159 million at Dec. 31, 1997.

Estimates of future costs of environmental protection are necessarily imprecise, due to numerous uncertainties. These include the impact of new laws and regulations, the availability and application of new and diverse technologies, the identification of new hazardous waste sites at which the corporation may be a PRP and, in the case of Superfund sites, the ultimate allocation of costs among PRPs and the final determination of the remedial requirements. While estimating such future costs is inherently imprecise, taking into consideration the corporation's experience to date regarding environmental matters of a similar nature and facts currently known, the corporation estimates that worldwide expenses related to environmental protection, expressed in 1997 dollars, should average about $110 million annually over the next five years. Worldwide capital expenditures for environmental protection, also expressed in 1997 dollars, are expected to average about $50 million annually over the same period. Management anticipates that future annual costs for environmental protection after 2002 will continue at levels comparable to the five-year average estimates.

Subject to the inherent imprecision and uncertainties in estimating and predicting future costs of environmental protection, it is management's opinion that any future annual costs for environmental protection in excess of the five-year average estimates stated here, plus those costs anticipated to continue thereafter, would not have a material adverse effect on the corporation's consolidated financial position.

Litigation

The corporation and its consolidated subsidiaries are involved in a number of legal proceedings and claims with both private and governmental parties. These cover a wide range of matters, including, but not limited to, product liability; governmental regulatory proceedings; health, safety and environmental matters; employment; patents; contracts, and taxes. In addition, the corporation continues to be named as one of a number of defendants in lawsuits involving silicone breast implants. The corporation supplied bulk silicone materials to certain companies that at various times were involved in the manufacture of breast implants. These cases are discussed in more detail in NOTE SEVENTEEN to the financial statements. In some of these legal proceedings and claims, the cost of remedies that may be sought or damages claimed is substantial. While it is impossible at this time to determine with certainty the ultimate outcome of any such legal proceedings and claims, management believes that adequate provisions have been made for probable losses with respect thereto and that such ultimate outcome, after provisions therefor, will not have a material adverse effect on the consolidated financial position of the corporation but could have a material effect on consolidated results of operations in a given quarter or year. Should any losses be sustained in connection with any of such legal proceedings and claims in excess of provisions therefor, they will be charged to income in the future.

Partnerships and Joint Ventures

As described on page 8, the corporation's most significant partnerships and joint ventures are UOP, Nippon Unicar, Aspell Polymeres, World Ethanol, Univation Technologies and Asian Acetyls within the Specialties & Intermediates segment, and Polimeri Europa, EQUATE Petrochemical Company, Petromont and Alberta & Orient Glycol within the Basic Chemicals & Polymers segment.

The combined financial information of the partnerships and joint ventures in each segment, and the corporation's proportionate share thereof, are presented in the following tables.

Specialties & Intermediates

	Combined			UCC's Proportionate Share[a]		
Millions of dollars	**1997**	1996	1995	**1997**	1996	1995
Net sales	**$2,246**	$2,238	$2,311	**$ 1,109**	$1,082	$1,114
Cost of sales	**1,395**	1,456	1,486	**567**	680	720
Depreciation	**90**	86	67	**51**	39	35
Income from operations	**340**	322	338	**175**	187	175
Interest expense	**42**	31	32	**15**	12	15
Provision for income taxes	**76**	63	54	**38**	32	27
Net Income	**$ 224**	$ 227	$ 257	**$ 122**	$ 143	$ 137
UCC share of dividends and distributions				**$ 107**	$ 101	$ 92
Total assets	**$ 1,837**	$1,769		**$ 820**	$ 757	
Total third party debt	**588**	577		**249**	212	
Net Assets	**$ 451**	$ 561		**$ 277**	$ 263	

Basic Chemicals & Polymers

	Combined			UCC's Proportionate Share[a]		
Millions of dollars	**1997**	1996	1995	**1997**	1996	1995
Net sales	**$2,078**	$1,930	$1,512	**$ 1,038**	$ 965	$ 756
Cost of sales	**1,661**	1,575	1,014	**855**	798	507
Depreciation	**102**	126	115	**46**	51	58
Income from operations	**219**	96	209	**68**	30	105
Interest expense	**70**	67	61	**35**	34	30
Provision for income taxes	**49**	20	36	**18**	11	17
Net Income (Loss)	**$ 100**	$ 9	$ 114	**$ 14**	$ (15)	$ 58
UCC share of dividends and distributions				**$ 19**	$ 40	$ 0
Total assets	**$3,980**	$ 3,536		**$1,797**	$1,650	
Total third party debt	**1,595**	1,197		**744**	561	
Net Assets	**$ 985**	$ 972		**$ 413**	$ 432	

a) *Includes U.S. GAAP adjustments made by the corporation, such as goodwill and related amortization, and adjustments needed to conform the accounting policies of the partnerships and joint ventures to those of UCC.*

Specialties & Intermediates

The corporation's share of the net income of Specialties & Intermediates partnerships and joint ventures decreased $21 million in 1997. This decline resulted from the assumption of certain costs, principally research and development, by the corporation's new technology venture, Univation Technologies, and decreased earnings of World Ethanol, mainly attributable to lower prices and volumes caused by a different mix of ethanol sales in 1997.

Increased earnings in 1996, as compared with 1995, resulted from increased earnings from UOP being partially offset by the elimination of earnings of the polypropylene partnership with Shell Oil Company. The 1996 and 1997 earnings from the polypropylene business were included in the consolidated results.

Basic Chemicals & Polymers

The corporation's share of the net income of Basic Chemicals & Polymers partnerships and joint ventures increased $29 million from 1996 to 1997, due to significant improvement in Polimeri Europa and Petromont earnings, offset by increased preoperating expenses of EQUATE. Strong results of our polyolefins partnerships in 1997 were the result of increases in worldwide polymer pricing over the prior year. The decrease from 1995 to 1996 reflected losses from Polimeri Europa and decreased earnings from Petromont, caused by lower polyethylene prices and higher raw material costs, and the recognition of preoperating expenses of EQUATE.

EQUATE Petrochemical Company commenced operations in the fourth quarter of 1997. Losses of $43 million for development of this world-scale petrochemical complex were recognized by the corporation in 1997 ($23 million and $3 million in 1996 and 1995, respectively). The corporation has severally guaranteed 45 percent (approximately $606 million at Dec. 31, 1997) of EQUATE's debt and working capital financing needs until certain completion and financial tests are achieved. If these tests are met, a $54 million several guarantee will provide ongoing support thereafter. The corporation also severally guaranteed certain sales volume targets until EQUATE's sales capabilities are proved. In addition, the corporation has pledged its shares in EQUATE as security for EQUATE's debt. The corporation has political risk insurance coverage for its equity investment and, through Sept. 30, 1998, substantially all of its several guarantee of EQUATE's debt.

Other

The corporation's remaining interest in UCAR International Inc., a manufacturer of carbon and graphite products, was sold in 1995. *Income (loss) from corporate investments carried at equity* included $4 million in 1995, representing the corporation's share of UCAR's earnings in that year. Additionally, the corporation's share of dividends and distributions from UCAR was $5 million in 1995.

Interest Expense

Interest expense increased $3 million, from $76 million in 1996 to $79 million in 1997. This increase reflects the effect of a full year's interest expense associated with the 7.75 percent debentures due in 2096 and an increase in short-term debt, partially offset by an increase in capitalized interest associated with the corporation's capital program. Interest expense decreased $13 million from 1995 to 1996 as a result of increased capitalized interest.

Provision for Income Taxes

The effective tax rate was 28.9 percent in 1997 compared with 27.9 percent and 30.2 percent in 1996 and 1995, respectively. The corporation's effective tax rate was reduced in each of these years as a result of foreign sales corporation income taxed at a preferential rate and research and experimentation tax credits. The 1995 effective tax rate was increased as a result of taxes provided on the sale of UCAR International Inc.

Accounting Changes

1995 through 1997

In November 1997, the Emerging Issues Task Force reached consensus on Issue 97-13, "Accounting for Costs Incurred in Connection with a Consulting Contract or an Internal Project That Combines Business Process Reengineering and Information Technology Transformation," requiring companies to expense as incurred costs associated with business process reengineering activities. Effective Oct. 1, 1997, the corporation adopted the provisions of Issue 97-13 as a cumulative effect of a change in accounting principle, reversing $28 million ($17 million, after-tax) of costs previously capitalized from 1995 through the third quarter of 1997.

Additionally in 1997, the corporation adopted Statement of Financial Accounting Standards (SFAS) 128, "Earnings Per Share", and SFAS 129, "Disclosure of Information About Capital Structure." In 1996, the corporation adopted SFAS 123, "Accounting for Stock-Based Compensation," under which the corporation elected to continue following Accounting Principles Board Opinion 25. In 1995, the corporation adopted SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the effect of which was not material.

1998

In June 1997, the Financial Accounting Standards Board issued SFAS 130, "Reporting Comprehensive Income," and SFAS 131, "Disclosures About Segments of an Enterprise and Related Information," for fiscal years beginning after Dec. 15, 1997. These statements address presentation and disclosure matters and will have no impact on the corporation's financial position or results of operations. The corporation does not anticipate a change in the identification of its business segments.

Effective Jan. 1, 1998, Brazil was no longer considered to be a highly inflationary economy. Had this change occurred effective Jan. 1, 1997, the effect on results of operations and financial position would not have been material.

Year 2000 Issue

Most of the corporation's computer and process control systems were designed to use only two digits to represent years. Thus they may not recognize "00" as representing the year 2000, but rather 1900, which could result in errors or system failures. These systems must be corrected in a timely manner to remain functional.

The corporation is addressing the year 2000 issue in several ways. Since 1995, the corporation has expended significant funds to upgrade the bulk of its commercial computer systems to enhance the information available to the corporation. This upgrade will correct the year 2000 issue for the computer systems it replaces. The upgrade will be implemented in three parts, the first of which commenced operation in 1998. The remaining parts are scheduled for operation by year-end. The corporation is reviewing the balance of its domestic and international internal processes, including hardware, software and control systems, and is assessing its external relationships to address potential impacts arising from interfaces with customers, suppliers and service providers. Priorities are being set and required system modifications are progressing. The corporation estimates its worldwide expenses related to the year 2000 project could range between $20 and $50 million over the next two years. The corporation believes the year 2000 project will be completed prior to the year 2000. However, considerable work remains to be accomplished in a limited period of time and unforeseen difficulties may arise which could adversely affect the corporation's ability to complete its systems modifications correctly, completely, on time and/or within its cost estimate. In addition, there can be no assurance that customers, suppliers and service providers on which the corporation relies will resolve their year 2000 issues accurately, thoroughly and on time. Failure to complete the year 2000 project by the year 2000 could have a material adverse effect on future operating results or financial condition.

Liquidity, Capital Resources and Other Financial Data

Cash Flow From Operations

Cash flow from operations increased by $55 million to $917 million in 1997, as compared with $862 million in 1996. Increased earnings for the year were offset by increases in working capital, principally the result of an increase in inventory partially offset by a decrease in notes and accounts receivable.

Cash Flow Used for Investing

Cash flow used for investing includes capital expenditures, investments, advances and acquisitions, and proceeds from the sale of investments and assets.

Capital expenditures increased to $755 million in 1997, from $721 million in 1996 and $542 million in 1995. Major capital projects funded during 1997 included a new CARBOWAX polyethylene glycol and TERGITOL surfactants facility, an ethanolamines unit and olefins expansion, all at Taft, La., as well as a continuing upgrade of the information technology infrastructure. Major capital projects funded during 1996 included an ethylene propylene rubber facility at Seadrift, Tex., expansion of ethylene production units at Taft, La., as well as new cogeneration facilities at Texas City, Tex. and Taft, La., and new information technology infrastructure. Major capital projects funded during 1995 included a new butanol unit at Taft, La., an energy systems upgrade at Texas City, Tex., new TRITON surfactants production facilities at South Charleston, W.Va. and a new UNIPOL II polyethylene production facility at Taft, La.

Over the past three years 52 percent of capital expenditures was directed to new capacity, 44 percent to cost reduction and replacement, and 4 percent to environmental, safety and health facilities. Of these expenditures, 92 percent was in the U.S. and Puerto Rico.

Investments and acquisitions in 1996 included the purchases of Shell's polypropylene assets and business and of 95 percent of the outstanding shares of Companhia Alcoolquimica Nacional, a Brazilian producer of vinyl acetate monomer. Investments and acquisitions during 1995 included the $216 million acquisition of a 50 percent interest in Polimeri Europa, a $134 million investment in the EQUATE joint venture, and the $71 million purchase of certain ethylene oxide derivative businesses in the U.K.

Net proceeds from the sale of investments in 1995 included $542 million from the sales of the corporation's remaining interest in UCAR International Inc.

At Dec. 31, 1997, the cost of completing authorized construction projects was estimated to be $1.375 billion, of which $50 million is covered by firm commitments. Future construction expenditures are anticipated to be sourced through operating cash flows and borrowings.

Cash Flow Used for Financing

Cash flow used for financing includes stockholder and minority interest dividends and funds used to buy back common stock, offset in part by net proceeds from short- and long-term debt and sales of common stock pursuant to the corporation's dividend reinvestment plan and its employee savings and investment programs.

Cash flow used for financing in 1997 totaled $132 million, compared with $254 million in 1996 and $57 million in 1995. Net borrowings totaled $306 million, while cash dividends totaled $134 million.

In January 1997, a newly formed real estate investment trust (REIT) subsidiary issued $250 million of preferred stock bearing a current dividend yield of 14 percent for 10 years and 1 percent thereafter. In October 1997, the corporation paid $240 million in cash to redeem the preferred stock shares. Cash dividends paid to preferred shareholders of the REIT during 1997 totaled $25 million.

In September 1997, the board of directors declared an increase in the quarterly common stock dividend to $0.225 per share. In October 1997, the trustee of the Employee Stock Ownership Plan (ESOP) exercised its right to convert all shares of the corporation's preferred stock held by the ESOP into the corporation's common stock. This noncash conversion increased the corporation's common stock outstanding at that time by 15.4 million shares.

In 1996, the corporation issued $200 million of 7.75 percent debentures maturing in 2096, the proceeds of which were used to finance ongoing share repurchases and to pay down existing short-term debt. In 1995 the corporation completed a $400 million, two-part public offering of debt securities.

On July 23, 1997, the corporation's board of directors authorized an increase in the number of shares that may be repurchased under the existing common stock repurchase program by 10 million shares, to an aggregate of 60 million shares since inception of the program. During 1997, pursuant to the share repurchase program, the corporation repurchased 7.0 million shares of its common stock for $337 million, at an average effective price of $47.62 per share, bringing the total amount repurchased since the beginning of 1993 to 49.3 million shares for $1.713 billion, at an average effective price of $34.69 per share. The corporation intends to acquire additional shares from time to time at prevailing market prices, at a rate consistent with the combination of corporate cash flow and market conditions.

At Dec. 31, 1997, there were no outstanding borrowings under either the corporation's existing $1 billion bank credit agreement or its $500 million medium-term note program.

Debt Ratios

Total debt outstanding at year-end for the past three years was:

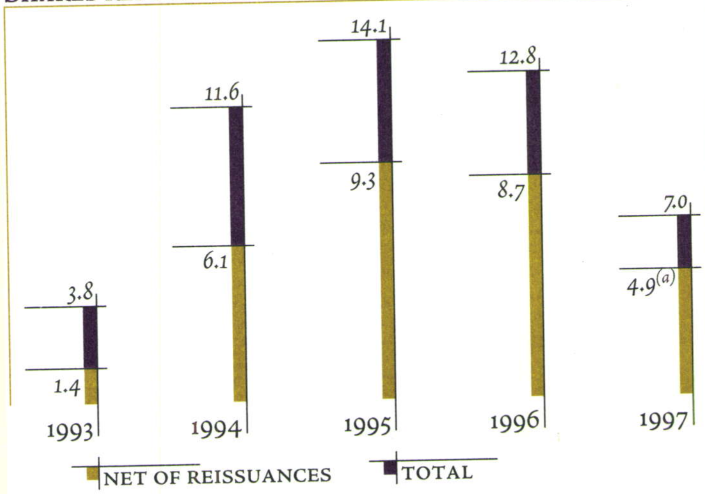
Millions of dollars	**1997**	1996	1995
Domestic	**$1,719**	$1,492	$1,254
International	**168**	107	69
Total	**$1,887**	$1,599	$ 1,323

Year-end ratios of total debt to total capital were:

	1997	1996	1995
Debt ratio	**44.2%**	42.7%	39.0%

Total debt consists of short-term debt, long-term debt and the current portion of long-term debt. Total capital consists of total debt plus minority stockholders' equity in consolidated subsidiaries and stockholders' equity.

Shares repurchased – *millions*



(a) Does not include 15.4 million shares issued in connection with the ESOP preferred share conversion.

Selected Financial Data

Union Carbide Corporation and Subsidiaries

Millions of dollars (except per share figures)	1997	1996	1995
From the Income Statement			
Net sales	$ 6,502	$ 6,106	$ 5,888
Cost of sales, exclusive of depreciation and amortization	4,806	4,568	4,100
Research and development	157	159	144
Selling, administration and other expenses	324	321	387(a)
Depreciation and amortization	340	312	306
Partnership income (loss)	133	144	152
Other income (expense) – net	37	31	245
Income before interest expense and provision for income taxes	1,045	921	1,348
Interest expense	79	76	89
Income (loss) before provision for income taxes – continuing operations	966	845	1,259
Provision (credit) for income taxes	279	236	380
Income (loss) from corporate investments carried at equity	3	(16)	47
Income (loss) from continuing operations	676	593	925
Cumulative effect of change in accounting principle	(17)	–	–
Net income (loss) – common stockholders	652	583	915
Per common share			
Basic – Income (loss) from continuing operations	$ 5.02	$ 4.43	$ 6.65
– Net income (loss)	4.89	4.43	6.65
Diluted – Income (loss) from continuing operations	4.53	3.90	5.85
– Net income (loss)	4.41	3.90	5.85
From the Balance Sheet			
Net current assets of continuing operations	$ 362	$ 595	$ 858
Total assets	6,964	6,546	6,256
Long-term debt	1,458	1,487	1,285
Other long-term obligations	738	811	834
Total capital(b)	4,268	3,742	3,392
Stockholders' equity	2,348	2,114	2,045
Stockholders' equity per common share	17.15	16.72	15.14
Other Data			
Cash dividends on common stock	$ 100	$ 99	$ 103
Cash dividends per common share	0.7875	0.75	0.75
Special distribution per common share	–	–	–
Market price per common share – high(c)	56.81	49.88	42.75
Market price per common share – low(c)	40.50	36.38	25.50
Common shares outstanding (thousands)	136,944	126,440	135,108
Capital expenditures	755	721	542
Employees – continuing operations	11,813	11,745	11,521
Selected Financial Ratios			
Total debt/total capital	44.2%	42.7%	39.0%
Return on capital(b)	19.6%	18.6%	39.2%
Return on equity(e)	30.8%	28.5%	60.6%
Income from continuing operations/average stockholders' equity	30.3%	28.5%	52.1%
Cash dividends on common stock/income from continuing operations	14.8%	16.7%	11.1%

a) *Selling, administration and other expenses in 1995 include a charge of $68 million for postemployment benefits.*
b) *Return on capital is computed by dividing income by beginning-of-year capital. Income consists of income from continuing operations, less preferred dividends, plus after-tax interest cost (net of interest income received from Praxair), plus income attributable to minority interests. Capital consists of total debt plus minority stockholders' equity in consolidated subsidiaries and stockholders' equity, adjusted for the corporation's Praxair-related assets and the cumulative effect of changes in accounting principles. Total debt consists of short-term debt, long-term debt and the current portion of long-term debt.*
c) *Prices are based on New York Stock Exchange Composite Transactions.*
d) *In 1992 the corporation spun off Praxair, Inc. The high and low presented in the table for 1992 represent the value of the common stock after the spin-off. The high and low for 1992 before the spin-off were $29.63 and $20.13, respectively.*
e) *Return on equity is computed by dividing net income (loss)-common stockholders by beginning-of-year stockholders' equity.*

1994	1993	1992	1991	1990	1989	1988
$ 4,865	$ 4,640	$ 4,872	$ 4,877	$ 5,238	$ 5,613	$ 5,525
3,673	3,589	3,764	3,787	3,876	3,909	3,696
136	139	155	157	157	143	124
290	340	383	408	466	442	394
274	276	293	287	278	261	255
98	67	60	(22)	70	82	95
(39)	(66)	(13)	(135)	103	108	(1)
551	297	324	81	634	1,048	1,150
80	70	146	228	269	268	172
471	227	178	(147)	365	780	978
137	78	45	(50)	130	257	381
55	16	(14)	(21)	(42)	27	33
389	165	119	(116)	188	530	608
–	(97)	(361)	–	–	–	–
379	58	(187)	(28)	308	573	662
$ 2.51	$ 1.03	$ 0.79	$ (1.07)	$ 1.34	$ 3.79	$ 4.52
2.51	0.37	(1.48)	(0.22)	2.19	4.10	4.92
2.27	0.97	0.76	(1.07)	1.32	3.63	4.30
2.27	0.41	(1.24)	(0.22)	2.16	3.92	4.67
$ 329	$ 233	$ 66	$ 209	$ 7	$ 22	$ 14
5,028	4,689	4,941	6,826	7,389	7,355	7,327
899	931	1,113	1,160	2,058	2,060	2,271
537	378	277	428	357	572	594
2,479	2,395	2,710	4,694	5,338	5,319	4,805
1,509	1,428	1,238	2,239	2,373	2,383	1,836
10.45	9.49	9.32	17.55	18.88	16.83	13.34
$ 113	$ 110	$ 114	$ 126	$ 138	$ 140	$ 155
0.75	0.75	0.875	1.00	1.00	1.00	1.15
–	–	15.875	–	–	–	–
35.88	23.13	17.13[d]	22.63	24.88	33.25	28.38
21.50	16.00	10.88[d]	15.13	14.13	22.75	17.00
144,412	150,548	132,865	127,607	125,674	141,578	137,602
409	395	359	400	381	483	380
12,004	13,051	15,075	16,705	17,722	18,032	17,258
38.2%	40.3%	54.3%	52.0%	54.0%	49.9%	56.1%
18.0%	7.7%	6.9%	–	8.4%	21.2%	24.5%
26.5%	4.7%	(8.4)%	(1.2)%	12.9%	31.2%	53.1%
26.5%	12.4%	6.8%	–	7.9%	25.1%	39.4%
29.0%	66.7%	95.8%	–	73.4%	26.4%	25.5%

Quarterly Data

Union Carbide Corporation and Subsidiaries

Millions of dollars	1Q	2Q	3Q	4Q	Year
1997					
Net sales	**$1,638**	**$1,666**	**$1,659**	**$1,539**	**$6,502**
Cost of sales	**1,231**	**1,220**	**1,199**	**1,156**	**4,806**
Gross profit	**407**	**446**	**460**	**383**	**1,696**
Depreciation and amortization	**82**	**87**	**87**	**84**	**340**
Operating profit	**247**	**291**	**291**	**216**	**1,045**
Income before cumulative effect of change in accounting principle	**157**	**191**	**181**	**147**	**676**
Cumulative effect of change in accounting principle	–	–	–	**(17)**	**(17)**
Net income	**157**	**191**	**181**	**130**	**659**
Net income – common stockholders	**155**	**188**	**179**	**130**	**652**
1996					
Net sales	$ 1,501	$ 1,559	$ 1,538	$ 1,508	$ 6,106
Cost of sales	1,099	1,150	1,145	1,174	4,568
Gross profit	402	409	393	334	1,538
Depreciation and amortization	75	79	81	77	312
Operating profit	259	245	242	175	921
Net income	157	173	161	102	593
Net income – common stockholders	155	170	159	99	583

Dollars per common share	1Q	2Q	3Q	4Q	Year
1997					
Basic –					
Income before cumulative effect of change in accounting principle	**$ 1.17**	**$ 1.46**	**$ 1.34**	**$ 1.07**	**$ 5.02**
Cumulative effect of change in accounting principle	–	–	–	**(0.13)**	**(0.13)**
Net income – common stockholders	**1.17**	**1.46**	**1.34**	**0.94**	**4.89**
Diluted –					
Income before cumulative effect of change in accounting principle	**1.03**	**1.28**	**1.18**	**1.04**	**4.53**
Cumulative effect of change in accounting principle	–	–	–	**(0.12)**	**(0.12)**
Net income – common stockholders	**1.03**	**1.28**	**1.18**	**0.92**	**4.41**
Cash dividends declared	**0.1875**	**0.1875**	**0.4125**	–	**0.7875**
Market price – high(a)	**49.38**	**50.63**	**56.81**	**50.13**	**56.81**
Market price – low(a)	**40.50**	**42.50**	**46.69**	**41.44**	**40.50**
1996					
Basic –					
Net income – common stockholders	$ 1.15	$ 1.27	$ 1.22	$ 0.77	$ 4.43
Diluted –					
Net income – common stockholders	1.01	1.12	1.08	0.68	3.90
Cash dividends declared	0.1875	0.1875	0.1875	0.1875	0.75
Market price – high(a)	49.88	49.63	46.25	47.00	49.88
Market price – low(a)	36.63	39.00	36.38	39.00	36.38

a) Prices are based on New York Stock Exchange Composite Transactions.

Consolidated Balance Sheet

Union Carbide Corporation and Subsidiaries

Millions of dollars at December 31,	1997	1996
Assets		
Cash and cash equivalents	$ 68	$ 94
Notes and accounts receivable	993	1,047
Inventories	604	541
Other current assets	201	191
Total Current Assets	1,866	1,873
Property, plant and equipment	7,707	7,159
Less: Accumulated depreciation	3,927	3,750
Net Fixed Assets	3,780	3,409
Companies carried at equity	690	695
Other investments and advances	73	77
Total Investments and Advances	763	772
Other assets	555	492
Total Assets	$6,964	$6,546
Liabilities and Stockholders' Equity		
Accounts payable	$ 273	$ 268
Short-term debt and current portion of long-term debt	429	112
Accrued income and other taxes	75	133
Other accrued liabilities	727	765
Total Current Liabilities	1,504	1,278
Long-term debt	1,458	1,487
Postretirement benefit obligation	464	473
Other long-term obligations	738	811
Deferred credits	419	301
Minority stockholders' equity in consolidated subsidiaries	33	29
Convertible preferred stock – ESOP	–	144
Unearned employee compensation – ESOP	–	(91)
Stockholders' equity		
Common stock		
Authorized – 500,000,000 shares Issued – 154,609,669 shares	155	155
Additional paid-in capital	47	370
Translation and other equity adjustments	(104)	(33)
Retained earnings	3,074	2,629
Unearned employee compensation – ESOP	(80)	–
Less: Treasury stock, at cost – 17,666,164 shares (28,169,324 in 1996)	744	1,007
Total Stockholders' Equity	2,348	2,114
Total Liabilities and Stockholders' Equity	$6,964	$6,546

The Notes to Financial Statements on pages 25 through 40 should be read in conjunction with this statement.

Consolidated Statement of Income

Union Carbide Corporation and Subsidiaries

Millions of dollars (except per share figures), year ended December 31,	1997	1996	1995
Net Sales	$6,502	$6,106	$5,888
Cost of sales, exclusive of depreciation and amortization	4,806	4,568	4,100
Research and development	157	159	144
Selling, administration and other expenses	324	321	387
Depreciation and amortization	340	312	306
Partnership income	133	144	152
Other income – net	37	31	245
Income Before Interest Expense and Provision for Income Taxes	1,045	921	1,348
Interest expense	79	76	89
Income Before Provision for Income Taxes	966	845	1,259
Provision for income taxes	279	236	380
Income of Consolidated Companies and Partnerships	687	609	879
Minority interest	14	–	1
Income (loss) from corporate investments carried at equity	3	(16)	47
Income Before Cumulative Effect of Change in Accounting Principle	676	593	925
Cumulative effect of change in accounting principle	(17)	–	–
Net Income	659	593	925
Preferred stock dividends, net of income taxes	7	10	10
Net Income – Common Stockholders	$ 652	$ 583	$ 915
Earnings per Common Share			
Basic –			
Income before cumulative effect of change in accounting principle	$ 5.02	$ 4.43	$ 6.65
Cumulative effect of change in accounting principle	(0.13)	–	–
Net income – common stockholders	$ 4.89	$ 4.43	$ 6.65
Diluted –			
Income before cumulative effect of change in accounting principle	4.53	3.90	5.85
Cumulative effect of change in accounting principle	(0.12)	–	–
Net income – common stockholders	$ 4.41	$ 3.90	$ 5.85
Cash Dividends Declared per Common Share	$ 0.7875	$ 0.75	$ 0.75

The Notes to Financial Statements on pages 25 through 40 should be read in conjunction with this statement.

Consolidated Statement of Cash Flows

Union Carbide Corporation and Subsidiaries

Increase (decrease) in cash and cash equivalents *Millions of dollars, year ended December 31,*	**1997**	1996	1995
Operations			
Income before cumulative effect of change in accounting principle	**$ 676**	$ 593	$ 925
Noncash charges (credits) to net income			
Depreciation and amortization	**340**	312	306
Deferred income taxes	**86**	82	(29)
Net gains on investing transactions	**–**	(3)	(379)
Other	**6**	16	186
Increase in working capital[a]	**(144)**	(92)	(242)
Long-term assets and liabilities	**(47)**	(46)	(4)
Cash Flow From Operations	**917**	862	763
Investing			
Capital expenditures	**(755)**	(721)	(542)
Investments, advances and acquisitions (excluding cash acquired)	**(68)**	(263)	(431)
Sale of investments	**–**	–	552
Sale of fixed and other assets	**13**	22	54
Cash Flow Used for Investing	**(810)**	(962)	(367)
Financing			
Change in short-term debt (3 months or less)	**271**	96	(11)
Proceeds from short-term debt	**51**	21	6
Repayment of short-term debt	**–**	(37)	–
Proceeds from long-term debt	**14**	203	402
Repayment of long-term debt	**(30)**	(10)	(22)
Issuance of common stock	**44**	129	116
Purchase of common stock	**(337)**	(544)	(425)
Proceeds from subsidiary preferred stock	**250**	–	–
Purchase of subsidiary preferred stock	**(240)**	–	–
Payment of dividends	**(134)**	(111)	(116)
Other	**(21)**	(1)	(7)
Cash Flow Used for Financing	**(132)**	(254)	(57)
Effect of exchange rate changes on cash and cash equivalents	**(1)**	(1)	1
Change in cash and cash equivalents	**(26)**	(355)	340
Cash and cash equivalents beginning-of-year	**94**	449	109
Cash and Cash Equivalents End-of-Year	**$ 68**	$ 94	$ 449
Cash paid for interest and income taxes			
Interest (net of amount capitalized)	**$ 77**	$ 66	$ 68
Income Taxes	**121**	169	329
a) Net change in certain components of working capital (excluding noncash transactions):			
(Increase) decrease in current assets			
Notes and accounts receivable	**$ 53**	$ (26)	$ (111)
Inventories	**(63)**	43	(144)
Other current assets	**–**	25	8
Increase (decrease) in payables and accruals	**(134)**	(134)	5
(Increase) in working capital	**$(144)**	$ (92)	$(242)

The Notes to Financial Statements on pages 25 through 40 should be read in conjunction with this statement.

Consolidated Statement of Stockholders' Equity

Union Carbide Corporation and Subsidiaries

	1997		1996		1995	
	Shares (in thousands)	Millions of dollars	Shares (in thousands)	Millions of dollars	Shares (in thousands)	Millions of dollars
Common Stock						
Balance at December 31	154,610	$ 155	154,610	$ 155	154,610	$ 155
Additional Paid-In Capital						
Balance at January 1		$ 370		$ 343		$ 369
Put options, net		26		8		(19)
Issued:						
For the Dividend Reinvestment and Stock Purchase Plan		2		2		1
For employee savings and incentive plans		(66)		17		(8)
Effect of conversion of preferred shares held by the ESOP		(285)		–		–
Balance at December 31		$ 47		$ 370		$ 343
Translation and Other Equity Adjustments						
Balance at January 1		$ (33)		$ (15)		$ (59)
Translation and other adjustments		(71)		(18)		(11)
Sale of businesses		–		–		55
Balance at December 31		$ (104)		$ (33)		$ (15)
Retained Earnings						
Balance at January 1		$2,629		$2,145		$ 1,333
Net income – common stockholders		652		583		915
Effect of conversion of preferred shares held by the ESOP		(107)		–		–
Cash dividends on common stock		(100)		(99)		(103)
Balance at December 31		$3,074		$2,629		$ 2,145
Unearned Employee Compensation – ESOP						
Balance at January 1		$ –		$ –		$ –
Reclassification due to conversion of preferred shares held by the ESOP		(81)		–		–
Shares allocated to ESOP participants		1		–		–
Balance at December 31		$ (80)		$ –		$ –
Treasury Stock						
Balance at January 1	28,169	$1,007	19,502	$ 583	10,197	$ 289
Common stock repurchase program	7,071	340	12,821	550	14,127	426
Issued:						
For the Dividend Reinvestment and Stock Purchase Plan	(189)	(7)	(212)	(7)	(322)	(9)
Effect of conversion of preferred shares held by the ESOP	(15,406)	(530)	–	–	–	–
For employee savings and incentive plans	(1,979)	(66)	(3,942)	(119)	(4,500)	(123)
Balance at December 31	17,666	$ 744	28,169	$1,007	19,502	$ 583
Total Stockholders' Equity		$2,348		$ 2,114		$2,045

The Notes to Financial Statements on pages 25 through 40 should be read in conjunction with this statement.

Notes to Financial Statements

ONE

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations ■ Union Carbide Corporation is engaged in two segments of the chemicals and plastics industry, Specialties & Intermediates and Basic Chemicals & Polymers. See NOTE FIVE.

Principles of Consolidation ■ The consolidated financial statements include the accounts of all significant subsidiaries. All significant intercompany transactions have been eliminated in consolidation. Investments in 20 percent- to 50 percent-owned companies and partnerships are carried at equity in net assets. Other investments are carried generally at cost.

The consolidated financial statements have been prepared in conformity with generally accepted accounting principles, which require the corporation to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Changes ■ In November 1997, the Emerging Issues Task Force reached consensus on Issue 97-13, "Accounting for Costs Incurred in Connection with a Consulting Contract or an Internal Project That Combines Business Process Reengineering and Information Technology Transformation," requiring companies to expense as incurred costs associated with business process reengineering activities. Effective Oct. 1, 1997, the corporation adopted the provisions of Issue 97-13 as a cumulative effect of a change in accounting principle, reversing $28 million ($17 million, after tax) of costs previously capitalized from 1995 through the third quarter of 1997.

Additionally in 1997, the corporation adopted Statement of Financial Accounting Standards (SFAS) 128, "Earnings Per Share," and SFAS 129, "Disclosure of Information About Capital Structure." In 1996, the corporation adopted SFAS 123, "Accounting for Stock-Based Compensation," under which the corporation elected to continue following Accounting Principles Board (APB) Opinion 25. In 1995, the corporation adopted SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," the effect of which was not material.

Foreign Currency Translation ■ Unrealized gains and losses resulting from translating foreign subsidiaries' assets and liabilities into U.S. dollars generally are accumulated in an equity account on the balance sheet until such time as the subsidiary is sold or substantially or completely liquidated. Translation gains and losses relating to operations located in Latin American countries, where hyperinflation exists, and to international operations using the U.S. dollar as their functional currency are included in the income statement.

Financial Instruments ■ Financial instruments are used to hedge financial risk caused by fluctuating interest and currency rates. The amounts to be paid or received on interest rate risk instruments that hedge debt, accrue and are recognized over the lives of the instruments. Gains and losses on foreign currency risk instruments used to hedge firm commitments are deferred and recognized as part of the related foreign currency transactions.

Foreign currency instruments that are designated to offset fluctuations in the dollar value of foreign currency accounts receivable and payable and from earnings fluctuations in anticipated foreign currency cash flows are marked to market and the results recognized immediately as other income or other expense.

Cash Equivalents ■ The corporation considers as cash equivalents all highly liquid investments that are readily convertible to known amounts of cash and are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Inventories ■ Inventories are stated at cost or market, whichever is lower. These amounts do not include depreciation and amortization, the impact of which is not significant to the financial statements.

Approximately 67 percent of inventory amounts before application of the LIFO method at Dec. 31, 1997 (66 percent at Dec. 31, 1996) have been valued on the LIFO basis; the "average cost" method is used for the balance. It is estimated that if inventories had been valued at current costs, they would have been approximately $348 million and $329 million higher than reported at Dec. 31, 1997 and 1996, respectively.

Fixed Assets ■ Fixed assets are carried at cost. Expenditures for replacements are capitalized, and the replaced items are retired. Gains and losses from the sale of property are included in income.

Depreciation is calculated on a straight-line basis. The corporation and its subsidiaries generally use accelerated depreciation methods for tax purposes where appropriate.

Patents, Trademarks and Goodwill ■ Amounts paid for purchased patents and newly acquired businesses in excess of the fair value of the net assets of such businesses have been charged to patents, trademarks and goodwill. The portion of such amounts determined to be attributable to patents is amortized over their remaining lives, while trademarks and goodwill are amortized over the estimated period of benefit, generally 5 to 20 years.

Research and Development ■ Research and development costs are charged to expense as incurred. Depreciation expense applicable to research and development facilities and equipment is included in *Depreciation and amortization* in the Consolidated Statement of Income ($12 million in 1997, $11 million in 1996 and $14 million in 1995).

Income Taxes ■ Provisions have been made for deferred income taxes based on differences between financial statement and tax bases of assets and liabilities using currently enacted tax rates and regulations.

Environmental Costs ■ Environmental expenditures are expensed or capitalized as appropriate, depending on their future economic benefit. Expenditures relating to an existing condition caused by past operations and having no future economic benefits are expensed. Environmental expenditures include site investigation, physical remediation, operation and maintenance, and legal and administrative costs. Environmental accruals are established for sites where it is probable that a loss has been incurred and the amount of the loss can reasonably be estimated. Where the estimate is a range and no amount within the range is a better estimate than any other amount, the corporation accrues the minimum amount in the range and includes the balance of the range in its reported contingencies.

Retirement Programs ■ The cost of pension benefits under the U.S. Retirement Program is determined by an independent actuarial firm using the projected unit credit actuarial cost method, with an unrecognized net asset at Jan. 1, 1986, amortized over 15 years. Contributions to this program are made in accordance with the regulations of the Employee Retirement Income Security Act of 1974.

The cost of postretirement benefits is recognized on the accrual basis over the period in which employees become eligible for benefits.

Incentive Plans ■ The corporation applies APB Opinion 25 in accounting for the stock purchase plan and the stock option portion of its employee compensation plan. Compensation expense is recognized for other stock-based incentives issued under the long-term incentive plan.

Reclassifications ■ Certain prior year amounts have been reclassified to conform with the current year's presentation.

TWO

Financial Instruments

Fair values of financial instruments are estimated by using a method that indicates the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair values of the financial instruments included on the Consolidated Balance Sheet were estimated as follows:

Cash, Short-Term Receivables and Accounts Payable ■ At Dec. 31, 1997 and 1996, the carrying amounts approximate fair values because of the short maturity of these instruments. The corporation did not have any foreign currency forward contracts outstanding at Dec. 31, 1997 ($38 million at Dec. 31, 1996) to hedge fluctuations in the dollar value of short-term foreign currency receivables and payables.

Outstanding foreign currency forward contracts and options used as a means of offsetting fluctuations in the dollar value of other foreign currency accounts receivable and payable and earnings fluctuations from anticipated foreign currency cash flows totaled $185 million at Dec. 31, 1997 ($188 million at Dec. 31, 1996). During 1997 and 1996, the average fair values of, and the resultant gains and losses associated with, these contracts were not material.

Investments ■ The corporation's investments in equity companies, partnerships and other businesses generally involve joint ventures for which it is not practicable to determine fair values.

Long-Term Receivables ■ The fair values of long-term receivables are calculated using current interest rates and consideration of underlying collateral where appropriate. The fair value, which approximate the carrying values of $85 million and $51 million, are included in *Other assets* in the Consolidated Balance Sheet at Dec. 31, 1997 and 1996, respectively.

Debt ■ The corporation uses various types of financial instruments, including interest rate swaps and forward rate agreements, to manage exposure to financial market risk caused by interest rate fluctuations. An interest rate swap held at Dec. 31, 1997 and 1996, had a nominal carrying amount and fair value.

Carrying and Fair Values ■ The carrying values and fair values of the corporation's investments, long-term receivables and debt financial instruments at Dec. 31, 1997 and 1996, are summarized in the table below. Fair values are based on quoted market values, where available, or discounted cash flows (principally long-term debt).

Millions of dollars at December 31,	1997		1996	
Assets (Liabilities)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Investments and receivables	$ 158	$ 158	$ 128	$ 128
Short- and long-term debt	(1,887)	(1,956)	(1,599)	(1,619)

THREE

Supplementary Balance Sheet Detail

Millions of dollars at December 31,	1997	1996
Notes and Accounts Receivable		
Trade	$ 826	$ 846
Other	178	211
	1,004	1,057
Less: Allowance for doubtful accounts	11	10
	$ 993	$1,047
Inventories		
Raw materials and supplies	$ 135	$ 114
Work in process	62	54
Finished goods	407	373
	$ 604	$ 541
Property, Plant and Equipment		
Land and improvements	$ 328	$ 326
Buildings	407	393
Machinery and equipment	6,230	5,795
Construction in progress and other	742	645
	$7,707	$ 7,159
Other Assets		
Deferred charges	$ 227	$ 193
Insurance recovery receivables	147	135
Long-term receivables	85	51
Patents, trademarks and goodwill	96	113
	$ 555	$ 492
Other Accrued liabilities		
Accrued accounts payable	$ 301	$ 335
Payrolls	55	56
Environmental remediation costs	68	58
Postretirement benefit obligation	34	33
Employee profit sharing	55	51
Other	214	232
	$ 727	$ 765
Other Long-Term Obligations		
Environmental remediation costs	$ 196	$ 252
Product liability costs	174	170
Impairment of unused office space	136	151
Postemployment benefits	72	83
Other	160	155
	$ 738	$ 811
Translation and Other Equity Adjustments		
Canada	$ (54)	$ (44)
Europe	(7)	18
Far East & Other	(43)	(7)
	$ (104)	$ (33)

FOUR

Supplementary Income Statement Detail

Millions of dollars for the year ended December 31,	1997	1996	1995
Selling, Administration and Other Expenses			
Selling	**$124**	$130	$128
Administration(a)	**126**	121	186
Other expenses	**74**	70	73
	$324	$321	$387
Other Income (Expense) – Net			
Gains on sales and disposals of business and other assets(b)	**$ –**	$ –	$387
Investment and interest income	**27**	32	19
Foreign currency adjustments	**(8)**	(7)	(6)
Unused space charge(c)	**–**	–	(191)
Other	**18**	6	36
	$ 37	$ 31	$245
Interest Expense			
Interest incurred(d)	**$130**	$121	$119
Less: interest capitalized and other adjustments	**51**	45	30
	$ 79	$ 76	$ 89

a) Includes a charge of $68 million for postemployment benefits in 1995.
b) Includes for 1995 a $381 million gain from the sales of the corporation's remaining interest in UCAR International Inc.
c) See NOTE SIXTEEN.
d) Includes $12 million in 1997, 1996 and 1995, representing the interest component of certain leases.

FIVE

Business and Geographic Segment Information

The company's operations are classified into two business segments. The Specialties & Intermediates segment includes the corporation's specialty chemicals and polymers product lines, licensing, and solvents and chemical intermediates. The Basic Chemicals & Polymers segment includes the corporation's ethylene and propylene manufacturing operations as well as the production of first-level ethylene and propylene derivatives - polyethylene, polypropylene, ethylene oxide and ethylene glycol. The corporation's noncore operations and financial transactions are included in the Other segment.

Millions of dollars	1997	1996	1995
Net Sales			
Specialties & Intermediates	**$4,453**	$4,286	$4,123
Basic Chemicals & Polymers	**2,420**	2,125	2,080
Intersegment eliminations	**(371)**	(305)	(315)
	$6,502	$6,106	$5,888
Partnership Income			
Specialties & Intermediates	**$ 116**	$ 134	$ 130
Basic Chemicals & Polymers	**17**	10	22
	$ 133	$ 144	$ 152
Depreciation and Amortization			
Specialties & Intermediates	**$ 214**	$ 188	$ 194
Basic Chemicals & Polymers	**126**	124	112
	$ 340	$ 312	$ 306
Operating Profit (Loss)			
Specialties & Intermediates	**$ 667**	$ 742	$ 709
Basic Chemicals & Polymers	**386**	162	444
Other	**(8)**	17	195
	$1,045	$ 921	$1,348
Capital Expenditures			
Specialties & Intermediates	**$ 458**	$ 522	$ 392
Basic Chemicals & Polymers	**297**	199	150
	$ 755	$ 721	$ 542
Identifiable Assets			
Specialties & Intermediates	**$4,146**	$3,892	$3,527
Basic Chemicals & Polymers	**2,540**	2,328	2,095
Other	**278**	326	634
	$6,964	$6,546	$6,256

Sales of the Basic Chemicals & Polymers segment include intersegment sales, principally ethylene oxide, which are made at the estimated market value of the products transferred. Operating profit is *Income Before Interest Expense and Provision for Income Taxes.*

The operating profit of the Specialties & Intermediates segment for 1997 includes a $12 million charge for the write-off certain equipment associated with the corporation's ethylene propylene rubber project.

The operating profit of the Specialties & Intermediates segment for 1995 includes a $48 million charge for postemployment benefits and an increase of $12 million in depreciation expense related to a reduction in the depreciable lives of certain computer equipment. The operating profit of the Basic Chemicals & Polymers segment for 1995 includes a $20 million charge for postemployment benefits. Other operating profit for 1995 includes a gain of $381 million on the sales of the corporation's interest in UCAR International Inc. and a charge of $191 million for future lease costs on unused office space, primarily at the corporation's headquarters.

Net sales, operating profit (loss) and identifiable assets by geographic area were as follows:

Millions of dollars	**1997**	1996	1995
Net Sales			
United States & Puerto Rico[a]	**$ 4,634**	$ 4,336	$ 4,071
Canada	**172**	147	142
Europe	**685**	664	719
Latin America	**255**	228	227
Far East & Other	**756**	731	729
International operations	**1,868**	1,770	1,817
	$ 6,502	$ 6,106	$ 5,888
Operating Profit (Loss)			
United States & Puerto Rico	**$ 957**	$ 820	$ 1,228
Canada	**29**	28	36
Europe[b]	**7**	41	50
Latin America	**12**	(11)	12
Far East & Other	**41**	37	29
International operations	**89**	95	127
Intersegment eliminations	**(1)**	6	(7)
	$ 1,045	$ 921	$ 1,348
Identifiable Assets			
United States & Puerto Rico	**$ 5,501**	$ 4,977	$ 4,433
Canada	**302**	305	277
Europe	**378**	408	404
Latin America	**232**	224	191
Far East & Other	**279**	312	322
International operations	**1,191**	1,249	1,194
Intersegment eliminations	**(6)**	(6)	(5)
Other	**278**	326	634
	$ 6,964	$ 6,546	$ 6,256

a) Includes export sales of $894 million in 1997 ($743 million in 1996 and $732 million in 1995).

b) Included in 1997 are higher costs associated with expansion and maintenance of the corporation's Wilton, U.K. facility.

SIX

Acquisitions and Divestitures

In April 1997, the corporation and Exxon Chemical Company formed Univation Technologies, LLC, a 50-50 joint venture for the research, development, marketing and licensing of polyethylene technology and metallocene catalysts.

In January 1996, the corporation purchased the polypropylene assets and business of Shell Oil Company. The purchased assets, located in the U.S., consist of Shell's polypropylene technology and manufacturing facilities and polypropylene assets previously held jointly by both companies.

In February 1996, the corporation purchased 95 percent of the outstanding shares of Companhia Alcoolquimica Nacional, a Brazilian producer of vinyl acetate monomer.

In July 1995, the corporation and two Kuwaiti corporations, Petrochemical Industries Company and Boubyan Petrochemical Company, formed EQUATE Petrochemical Company, a joint venture for development of a world-scale petrochemical complex in Kuwait. EQUATE commenced operations in 1997.

In March 1995, the corporation acquired 50 percent of the equity of Polimeri Europa S.r.l., a producer of ethylene and polyethylene resins, from EniChem S.p.A. for $216 million. EniChem retained the other 50 percent.

In February 1995, the corporation purchased certain ethylene oxide derivative businesses from Imperial Chemical Industries of London for $71 million.

In January 1995, the corporation and Mitsubishi Corporation concluded the sale of newly issued common stock of UCAR International Inc. to a new company formed by Blackstone Capital Partners II Merchant Banking Fund L.P. and a repurchase of certain shares by UCAR that resulted in Blackstone acquiring a 75 percent interest in UCAR. The corporation received $343 million in net cash proceeds and retained a 25 percent equity interest in UCAR. This transaction resulted in a gain of $220 million ($154 million after-tax). In August 1995, the corporation joined in UCAR's initial public offering to sell its remaining equity interest in UCAR for net cash proceeds of $199 million. This sale resulted in a gain of $161 million ($99 million after-tax).

SEVEN

Income Taxes

The following is a summary of the U.S. and non-U.S. components of *Income Before Provision for Income Taxes:*

Millions of dollars for the year ended December 31,	**1997**	1996	1995
U.S.	**$897**	$766	$ 1,137
Non-U.S.	**69**	79	122
	$966	$845	$1,259

The following is an analysis of income tax expense:

Millions of dollars for the year ended December 31,	**1997 Current**	**1997 Deferred**	1996 Current	1996 Deferred	1995 Current	1995 Deferred
U.S. Federal income taxes	**$154**	**$80**	$107	$79	$332	$(24)
U.S. business and research and experimentation tax credits	**(14)**	**–**	(8)	–	(17)	–
U.S. state and local taxes based on income	**1**	**4**	1	2	47	(7)
Non-U.S. income taxes	**52**	**2**	54	1	47	2
	193	**86**	154	82	409	(29)
Provision for Income Taxes	**$279**		$236		$380	

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

Millions of dollars at December 31,	**1997 Deferred Assets**	**1997 Deferred Liabilities**	1996 Deferred Assets	1996 Deferred Liabilities
Depreciation and amortization	**$ –**	**$495**	$ –	$435
Postretirement and postemployment benefits	**226**	**–**	229	–
Environmental and litigation costs	**113**	**–**	133	–
Sale/leaseback and related deferrals	**101**	**–**	103	–
Other	**174**	**242**	199	246
Gross deferred tax assets and liabilities	**614**	**737**	664	681
Net Deferred Tax Liability	**$123**		$17	

Net noncurrent deferred tax liabilities of $263 million ($142 million in 1996) are included in *Deferred credits* in the Consolidated Balance Sheet. Net current deferred tax assets of $135 million ($118 million in 1996) are included in *Other current assets.* Net noncurrent deferred tax assets of $5 million ($7 million in 1996) are included in *Other assets.* In 1997 and 1996 there were $2 million in non-U.S. net operating loss carryforwards included in the deferred tax assets above.

Undistributed earnings of affiliates intended to be reinvested indefinitely amounted to approximately $469 million at Dec. 31, 1997 ($403 million at Dec. 31, 1996). Determination of deferred taxes related to these earnings is not practicable.

An analysis of the difference between *Provision for income taxes* and the amount computed by applying the statutory Federal income tax rate to *Income Before Provision for Income Taxes* is as follows:

	Percentage of Pre-Tax Income		
Year ended December 31,	**1997**	1996	1995
Tax at statutory Federal rate	**35.0%**	35.0%	35.0%
Taxes related to operations outside the U.S.	**(0.7)**	(1.0)	0.1
U.S. state and local taxes based on income	**0.3**	0.3	1.0
Foreign sales corporation	**(2.9)**	(3.0)	(1.4)
Business credits	**(1.5)**	(0.9)	(1.4)
Other, net	**(1.3)**	(2.5)	(3.1)
Consolidated effective income tax rate	**28.9%**	27.9%	30.2%

EIGHT

Partnerships and Joint Ventures

The following are financial summaries of 33 percent- to 50 percent-owned *Companies carried at equity*. The corporation's most significant companies carried at equity, classified as partnerships, include UOP LLC, Petromont and Company, Limited Partnership, Aspell Polymeres SNC, World Ethanol Company and Univation Technologies, LLC. The corporation purchased the balance of the Union Carbide/Shell polypropylene partnership in January 1996 (see Note six).

	Partnerships		
Millions of dollars	**1997**	1996	1995
Net Sales(a)	**$2,076**	$2,109	$2,146
Cost of sales	**1,242**	1,338	1,312
Depreciation	**83**	83	66
Partnership income	**249**	242	283
UCC Share of Partnership Income	**$ 133**	$ 144	$ 152
Current assets	**$ 746**	$ 704	
Noncurrent assets	**886**	806	
Total assets	**1,632**	1,510	
Current liabilities	**451**	608	
Noncurrent liabilities	**711**	385	
Total liabilities	**1,162**	993	
Net assets	**470**	517	
UCC Equity	**$ 278**	$ 251	

a) Includes $208 million net sales to the corporation in 1997 ($159 million in 1996 and $177 million in 1995).

The corporation's companies earned at equity, classified as corporate investments, include Polimeri Europa S.r.l., EQUATE Petrochemical Company K.S.C., Nippon Unicar Company Limited, Alberta & Orient Glycol Company Limited, Asian Acetyls Co., Ltd., several smaller entities and, in 1995, UCAR International Inc.

	Corporate Investments		
Millions of dollars	**1997**	1996	1995
Net Sales(a)	**$2,248**	$2,059	$1,731
Cost of sales	**1,814**	1,693	1,221
Depreciation	**109**	129	119
Net income (loss)	**75**	(6)	96
UCC Share of Net Income (Loss)	**$ 3**	$ (16)	$ 47
Current assets	**$ 933**	$ 877	
Noncurrent assets	**3,252**	2,918	
Total assets	**4,185**	3,795	
Current liabilities	**872**	888	
Noncurrent liabilities	**2,347**	1,891	
Total liabilities	**3,219**	2,779	
Net assets	**966**	1,016	
UCC Equity	**$ 412**	$ 444	

a) Includes $156 million net sales to the corporation in 1997 ($153 million in 1996 and $167 million in 1995).

Dividends and distributions received from joint ventures and partnerships aggregated $126 million in 1997 ($141 million in 1996 and $97 million in 1995).

NINE

Long-Term Debt

Millions of dollars at December 31,	1997	1996
6.75% Notes due 2003	**$ 125**	$ 125
6.79% Debentures due 2025[a]	**250**	250
7.00% Notes due 1999	**175**	175
7.50% Debentures due 2025	**150**	150
7.75% Debentures due 2096	**200**	200
7.875% Debentures due 2023	**175**	175
8.75% Debentures due 2022[b]	**117**	125
Pollution control and other facility obligations	**242**	243
Other debt – various maturities and interest rates	**29**	54
	1,463	1,497
Less: payments to be made within 1 year	**5**	10
	$1,458	$1,487

a) Holders may request redemption of these debentures from the corporation on June 1, 2005.

b) Redeemable at the option of the corporation on or after Aug. 1, 2002.

The corporation has a credit agreement with a group of banks providing the corporation with $1 billion in credit through January 2002, but with the option, subject to certain conditions, to increase the available credit by $250 million and to extend the maturity date of the agreement by one year on a rolling basis. Several options are available to borrow at floating interest rates based on LIBOR (London Interbank Offered Rate) or Certificate of Deposit Rate on a revolving basis.

In 1997, the corporation established a medium-term note program that allows for borrowings of up to $500 million. Notes issued under the program will have a maturity of nine months or longer and will bear interest at either a fixed or floating rate determined by reference to interest rate formulas.

At Dec. 31, 1997, there were no outstanding borrowings under either the corporation's credit agreement or its medium-term note program.

In 1996, the corporation issued $200 million of 7.75 percent debentures maturing in 2096. The maturity of the debentures may be shortened under certain circumstances to preserve the deductibility of interest payments for Federal income tax purposes.

The corporation's credit agreement and the indentures under which notes and debentures are issued contain covenants normal for these types of instruments. These covenants place certain limits on the corporation's ability to merge with another entity, sell assets, engage in sale-leaseback transactions, incur debt or create liens on assets. In addition, the credit agreement requires the corporation to meet leverage and interest coverage tests.

Pollution control and other facility obligations represent state, commonwealth and local governmental bond financing of pollution control and other facilities, and are treated for accounting and tax purposes as debt of the corporation. These tax-exempt obligations mature at various dates from 1998 through 2023 and had an average annual effective interest rate of 7.2 percent in 1997.

The weighted average and effective interest rates in 1997 on the corporation's fixed-rate debt, other than pollution control and other facility obligations, were 7.7 percent. The corporation's weighted average interest rate on short-term borrowings outstanding as of Dec. 31, 1997 was 6.4 percent (6.3 percent at Dec. 31, 1996).

Payments due on long-term debt in the four years following 1998 are: 1999, $182 million; 2000, $21 million; 2001, $23 million, and 2002, $16 million.

TEN

Minority Interest

In January 1997, a newly formed real estate investment trust subsidiary issued $250 million of preferred stock bearing a current dividend yield of 14 percent for 10 years and 1 percent thereafter. In October 1997, the preferred shares were redeemed for $240 million.

ELEVEN

Earnings Per Share

Basic and diluted earnings per share (EPS) are calculated based upon the provisions of SFAS 128, adopted in 1997:

In millions (except share and per share amounts)	**1997**	1996	1995
Basic –			
Income before cumulative effect of change in accounting principle	**$ 676**	$ 593	$ 925
Less: Dividends on ESOP shares, pre-tax	**(9)**	(13)	(13)
Appreciation on ESOP shares redeemed for cash	**(23)**	–	–
Income before cumulative effect of change in accounting principle adjusted for basic calculation	**644**	580	912
Cumulative effect of change in accounting principle	**(17)**	–	–
Net income-common stockholders, adjusted for basic calculation	**$ 627**	$ 580	$ 912
Weighted average shares outstanding for basic calculation	**128,185,093**	131,029,621	137,219,676
Earnings per share –			
Income before cumulative effect of change in accounting principle	**$ 5.02**	$4.43	$6.65
Cumulative effect of change in accounting principle	**(0.13)**	–	–
Net income-common stockholders	**$4.89**	$4.43	$6.65
Diluted –			
Income before cumulative effect of change in accounting principle, adjusted for basic calculation	**$ 644**	$ 580	$ 912
Plus: Dividends on ESOP shares, pre-tax	**9**	13	13
Less: Additional ESOP contribution resulting from assumed conversion of ESOP shares	**(1)**	(1)	(1)
Income before cumulative effect of change in accounting principle, adjusted for diluted calculation	**652**	592	924
Cumulative effect of change in accounting principle	**(17)**	–	–
Net income-common stockholders, adjusted for diluted calculation	**$ 635**	$ 592	$924
Weighted average shares outstanding for basic calculation	**128,185,093**	131,029,621	137,219,676
Add: Effect of stock options	**4,034,969**	4,495,656	4,367,153
Effect of equity put options	**–**	403	–
Shares issuable upon conversion of the corporation's convertible ESOP shares	**11,739,036**	16,120,754	16,341,367
Weighted average shares outstanding, adjusted for diluted calculation	**143,959,098**	151,646,434	157,928,196
Earnings per share –			
Income before cumulative effect of change in accounting principle, adjusted for diluted calculation	**$ 4.53**	$3.90	$5.85
Cumulative effect of change in accounting principle	**(0.12)**	–	–
Net income-common stockholders, adjusted for diluted calculation	**$ 4.41**	$3.90	$5.85

TWELVE

Retirement Programs

Pension Benefits ■ The noncontributory defined benefit retirement program of Union Carbide Corporation ("U.S. Retirement Program") covers substantially all U.S. employees and certain employees in other countries. Pension benefits are based primarily on years of service and compensation levels prior to retirement. Pension coverage for employees of the corporation's non-U.S. consolidated subsidiaries is provided through separate plans, to the extent deemed appropriate. Obligations under such plans are principally provided for by depositing funds with trustees.

The components of net periodic pension cost for the plans combined are as follows:

Millions of dollars for the year ended December 31,	**1997**	1996	1995
(Gain) loss on plan assets			
Actual	**$(827)**	$(190)	$(904)
Deferred	**588**	(31)	692
	(239)	(221)	(212)
Service cost – benefits earned during the period	**56**	54	44
Interest cost on projected benefit obligation	**208**	196	197
Amortization	**(8)**	(3)	(6)
Net Periodic Pension Cost	**$ 17**	$ 26	$ 23

The funded status of the plans combined is as follows:

Millions of dollars at December 31,	**1997**	1996
Actuarial present value of plan benefits		
Accumulated benefit obligation		
Vested	**$2,905**	$2,599
Nonvested	**138**	132
	3,043	2,731
Projected benefit obligation	**3,324**	3,001
Fair value of plan assets, primarily invested in common stocks and fixed-income securities	**3,820**	3,180
Plan assets in excess of projected benefit obligation	**496**	179
Unamortized net asset at transition	**(49)**	(64)
Unamortized prior service cost	**15**	19
Unrecognized gains – net	**(457)**	(127)
Prepaid Pension Cost	**$ 5**	$ 7

Pension obligations are valued using the 1994 Uninsured Pensioner Mortality Table. Prior to 1997, these obligations were valued using the 1983 Group Annuity Mortality Table. The actuarial assumptions used were as follows:

At December 31,	**1997**	1996
Discount rate for determining projected benefit obligation	**6.50%**	7.25%
Rate of increase in compensation levels	**3.75%**	4.50%
Expected long-term rate of return on plan assets	**8.00%**	8.50%

Postretirement Benefits Other Than Pensions ■ The corporation provides health care and life insurance benefits for eligible retired employees and their eligible dependents. These benefits are provided through various insurance companies and health care providers.

The obligation is determined by application of the terms of health and life insurance plans, together with relevant actuarial assumptions and health care cost trends projected to increase annually at rates of 8.0 percent in 1998 and 7.5 percent in 1999, falling incrementally to a 5.0 percent annual increase in 2004 and thereafter.

The effect of a 1 percent annual increase in the assumed health care cost trend rates would increase the accumulated postretirement benefit obligation at Dec. 31, 1997 by $33 million, and the aggregate of service and interest cost components of net periodic postretirement benefit costs by $4 million. Measurement of the accumulated postretirement benefit obligation was based on the same actuarial assumptions used in the pension calculations.

The corporation has funded postretirement benefits for certain retirees who retired prior to Dec. 31, 1988. The funds are invested primarily in common stocks.

The components of net periodic postretirement benefit cost are as follows:

Millions of dollars for the year ended December 31,	**1997**	1996	1995
(Gain) loss on plan assets			
Actual	**$ (9)**	$ (4)	$ (8)
Deferred	**7**	2	6
	(2)	(2)	(2)
Service cost – benefits earned during the period	**14**	13	11
Interest cost	**33**	31	35
Amortization	**(21)**	(21)	(21)
Net Periodic Postretirement Benefit Cost	**$ 24**	$ 21	$ 23

The funded status of the postretirement benefit obligation is as follows:

Millions of dollars at December 31,	**1997**	1996
Accumulated postretirement benefit obligations		
Retirees	**$ 382**	$366
Fully eligible active plan participants	**90**	79
Other active plan participants	**31**	27
	503	472
Fair value of plan assets	**17**	17
Accumulated postretirement benefits in excess of plan assets	**486**	455
Unrecognized gains – net	**12**	51
Accrued Unfunded Postretirement Benefit Obligations	**$ 498**	$506

The accumulated postretirement benefit obligation for retirees is net of $131 million at Dec. 31, 1997 ($130 million at Dec. 31, 1996), which is reimbursed to the corporation in part by previously owned businesses under ongoing benefit-sharing agreements.

Deferred Compensation Plan ■ Since Jan. 1, 1995, the corporation has provided an unfunded, nonqualified deferred compensation plan to certain key employees, offering them an election to defer a portion of their gross pay. The corporation's obligation to employees is adjusted to reflect changes in the market values of employees' investment choices. With limited exceptions, participants' deferred account balances are scheduled for payment at or after full retirement.

Postemployment Benefits ■ During 1995 the corporation recorded a charge of $68 million ($49 million after-tax) for postemployment benefits. The charge included severance costs relating to future staff reductions associated with work process simplification efforts and changes in the corporation's severance benefits.

THIRTEEN

Employee Stock Ownership Plan

The Union Carbide Corporation Employee Stock Ownership Plan (ESOP) is an integral part of the Savings and Investment Program (the Program) for employees. Prior to October 1997, each share of the corporation's preferred stock held by the ESOP (ESOP shares) was convertible into and had the same voting rights as one share of the corporation's common stock. The annual preferred dividend was $0.794 per share. In October 1997 the trustee of the ESOP exercised its right to convert all outstanding ESOP shares into the corporation's common stock. As a result of the conversion, the corporation's common stock outstanding at that date was increased by 15.4 million shares.

Substantially all full-time employees in the U.S. are eligible to participate in the ESOP through the allocation of ESOP shares equivalent to the corporation's matching contribution of 75 percent of eligible employee contributions to the Program. In addition, in 1997, eligible employees received the equivalent of up to twenty days pay in ESOP shares through the corporation's ESOP profit sharing plan.

Common shares held by the ESOP generally are sold in the open market when employees make withdrawals or sell ESOP shares within their account.

The cost of the ESOP is recognized as incurred and was $7 million in 1997 ($2 million and $4 million in 1996 and 1995, respectively). The increase in 1997 costs was principally due to the allocation of more shares to participants through the corporation's ESOP profit sharing plan. Continued reductions in ESOP costs are due primarily to appreciation in the corporation's common stock. At Dec. 31, 1997, 15.4 million common shares held by the ESOP were outstanding, 6.5 million of which were allocated to employees' accounts. During 1997, 1.3 million ESOP shares were allocated to employees' accounts.

FOURTEEN

Incentive Plans

On April 27, 1997, stockholders approved the 1997 Union Carbide Long-Term Incentive Plan for key employees. The Plan provides for granting incentive and nonqualified stock options; exercise payment rights; grants of stock, including restricted stock, and performance awards. Holders of options may be granted the right to receive payments of amounts equal to the regular cash dividends paid to holders of the corporation's common stock during the period an option is outstanding. The number of shares granted or subject to options generally cannot exceed 2 million under the Plan. However, up to 4 million additional shares may be granted or subject to options to the extent the corporation acquires shares after April 27, 1997. Option prices are equal to the closing price of the corporation's common stock on the date of the grant, as listed on the New York Stock Exchange Composite Transactions. Options generally become exercisable two years after such date. Options may not have a duration of more than ten years. The option price may be settled in cash, common shares of the corporation currently owned by a participant, withholding stock shares from the exercise or a combination of these alternatives. Restricted stock award shares are entitled to vote and dividends are credited to the holder's account, but these shares are generally nontransferable for varying periods after the grant date. Once the vesting conditions are met, the shares become fully transferable. Performance awards may be paid in common stock, cash or other forms of property. No dividend-equivalent payment rights or performance awards were granted in 1997.

No awards were made in 1997, and no further awards can be made, under previous plans. Prior plans still have options outstanding and restricted stock not yet vested, whose terms are generally similar to nonqualified stock options and restricted stock grants under the 1997 plan.

Changes in outstanding fixed price options were as follows:

Shares in thousands	1997 Shares	1997 Weighted Average Exercise Price	1996 Shares	1996 Weighted Average Exercise Price	1995 Shares	1995 Weighted Average Exercise Price
Outstanding at January 1	**12,782**	**$21.45**	13,350	$18.54	13,807	$15.70
Granted	**1,508**	**46.31**	1,166	45.55	1,270	40.38
Exercised	**(1,717)**	**13.45**	(1,569)	13.05	(1,667)	11.37
Canceled or expired	**(40)**	**38.47**	(165)	36.00	(60)	27.25
Outstanding at December 31	**12,533**	**25.48**	12,782	21.45	13,350	$18.54
Options exercisable at December 31	**9,889**		10,460		10,200	

Options were exercised during 1997 at prices ranging from \$6.70 to \$45.63 per share (\$6.70 to \$28.63 per share during 1996 and \$1.00 to \$21.63 per share during 1995).

The following table summarizes information about fixed price option shares outstanding at Dec. 31, 1997:

Shares in thousands	Shares Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Range of Exercise Prices			
\$ 6.70 to \$ 9.69	**2,635**	**3.3 years**	**\$ 8.40**
\$11.37 to \$16.75	**2,439**	**4.3 years**	**\$ 15.76**
\$21.63 to \$28.63	**3,666**	**6.4 years**	**\$24.78**
\$39.88 to \$46.31	**3,793**[(a)]	**9.0 years**	**\$44.28**
	12,533		

a) At Dec. 31, 1997, 1.149 million options were exercisable at a price of \$40.38.

Had compensation cost related to the fixed price options been recorded at fair value on the dates of grant in accordance with SFAS 123, the effect on the corporation's net income and EPS amounts would have been as follows:

Millions of dollars (except per share figures), for the year ended December 31,		1997	1996	1995
Net income-common stockholders	As reported	**\$ 652**	\$ 583	\$ 915
	Pro forma	**\$ 639**	\$ 576	\$ 913
Basic EPS	As reported	**\$4.89**	\$4.43	\$6.65
	Pro forma	**\$4.79**	\$4.37	\$6.63
Diluted EPS	As reported	**\$4.41**	\$3.90	\$5.85
	Pro forma	**\$4.32**	\$3.86	\$5.84

The Black-Scholes Option Pricing Model was used to estimate the fair values of options granted during 1997, 1996 and 1995. The assumptions used for these grants included a 6-year average expected life for all years, and zero-coupon U.S. government risk free interest rates of 5.92%, 5.95%, and 5.70%, current dividend yields of 1.73%, 1.78%, and 1.75%, and volatility of 28.77%, 28.00%, and 28.78% for the years ended 1997, 1996 and 1995, respectively. The weighted average fair values of options granted during the years 1997, 1996, and 1995 were \$15.54, \$15.31 and \$13.43, respectively.

On Sept. 24, 1997, the board approved the 1997 Union Carbide Corporation EPS Incentive Plan for a limited number of senior managers. It is designed to grant awards if the corporation achieves \$4.00 or more diluted earnings per share performance during 1999 and 2000. The plan requires these senior managers to put an amount equivalent to a portion of their annual base pay at risk, up to 100 percent, should diluted earnings per share not equal or exceed \$4.00 in the year 2000. The amount at risk will be deducted from compensation over three years and is converted to units equivalent to common stock using a \$47.75 share price, the closing price of the corporation's common stock on the date the plan was approved by the board of directors. Participants could be awarded up to four times the number of units at risk for each of the years 1999 and 2000, depending on the extent to which the goals of the plan are exceeded. Participants will also be credited with dividend-equivalents in the form of additional units. Payments under the plan will be in cash and are scheduled for 2002, 2003 and 2004. Failure to meet the requirements of the plan will result in forfeiture of the amounts at risk.

FIFTEEN

Stockholders' Equity

Subject to the following discussion, each outstanding share of common stock has identical rights in voting on corporate matters, dividends when declared, liquidation and other corporate matters.

Each outstanding share of common stock bears one Right entitling its holder, under certain circumstances, to buy a share of common stock at a purchase price of $37.67 (subject to adjustment). The Rights may not be exercised until 10 days after a person or group acquires 20 percent or more of UCC's common stock, or until a date determined by the board of directors following announcement of a tender offer that, if consummated, would result in 20 percent or more ownership of the common stock. Until then, separate Rights certificates will not be issued, nor will the Rights be traded separately from the stock.

Should an acquirer become the beneficial owner of 20 percent of the common stock, and under certain additional circumstances, the corporation's stockholders (other than the acquirer) would have the right to buy common stock in Union Carbide Corporation, or in the surviving enterprise if the corporation is acquired, having a value equal to two times the purchase price of the Right then in effect.

The Rights will expire on Aug. 31, 1999, unless redeemed prior to that date. The redemption price is $0.01 per Right.

On July 23, 1997, the board of directors of the corporation increased the number of shares that may be repurchased under the existing common stock repurchase program to 60 million shares.

Through Dec. 31, 1997, the corporation had repurchased 49.3 million shares since inception of the program in 1993 (7.0 million during 1997) at an average effective price of $34.69 per share. The corporation will continue to acquire additional shares from time to time at prevailing market prices, at a rate consistent with the combination of corporate cash flow and market conditions.

In conjunction with the corporation's common stock buyback program, put options were sold in a series of private placements entitling the holders to sell 12.9 million shares of common stock to UCC at specified prices upon exercise of the options. Since inception of this program through Dec. 31, 1997, options representing 9.8 million common shares have expired unexercised, while options representing 3.1 million shares were exercised for $129 million, or an average price of $40.94 per share. No options were outstanding at Dec. 31, 1997. Premiums received since inception of the program, which are recorded as *Additional paid-in capital*, have reduced the average price of repurchased shares to $34.69 per share from $34.97.

SIXTEEN

Leases

Leases that meet the criteria for capitalization have been classified and accounted for as capital leases. For operating leases, primarily involving facilities and distribution equipment, the future minimum rental payments under leases with remaining noncancelable terms in excess of one year are:

Millions of dollars, year ending December 31,	
1998	$ 62
1999	58
2000	53
2001	50
2002	58
Subsequent to 2002	186
Total minimum payments	467
Future sublease rentals	81
Net Minimum Rental Commitments	$386

The present value of the net minimum rental payments amounts to $303 million, of which $214 million pertains to the corporation's headquarters lease. Total lease and rental payments (net of sublease rental of $21 million in 1997 and $20 million in 1996 and 1995) were $54 million, $53 million and $67 million for 1997, 1996 and 1995, respectively.

During 1995 the corporation recognized a nonrecurring, noncash charge of $191 million ($134 million after-tax) for future minimum lease payments on unused office space, primarily at the corporation's headquarters. The headquarters charge reflects the pro rata costs of unused office space over the remaining term of the lease, which runs to 2006, less anticipated net sublease income. Neither the expected future costs nor expected net sublease revenues were discounted.

SEVENTEEN

Commitments and Contingencies

Purchase Agreements ■ The corporation has three major agreements for the purchase of ethylene-related products and two other purchase agreements in the U.S. and Canada. Total purchases under these agreements were $245 million, $233 million and $251 million in 1997, 1996 and 1995, respectively. The net present value of the fixed and determinable portion of obligations under these purchase commitments at Dec. 31, 1997 (at current exchange rates, where applicable) is presented in the following table.

Millions of dollars, year ending December 31,	
1998	$ 69
1999	60
2000	31
2001	23
2002	20
2003 TO EXPIRATION OF CONTRACTS	88
TOTAL	**$291**

Environmental ■ The corporation is subject to loss contingencies resulting from environmental laws and regulations, which include obligations to remove or remediate the effects on the environment of the disposal or release of certain wastes and substances at various sites. The corporation has established accruals in current dollars for those hazardous waste sites where it is probable that a loss has been incurred and the amount of the loss can reasonably be estimated. The reliability and precision of the loss estimates are affected by numerous factors, such as different stages of site evaluation, the allocation of responsibility among potentially responsible parties and the assertion of additional claims. The corporation adjusts its accruals as new remediation requirements are defined, as information becomes available permitting reasonable estimates to be made, and to reflect new and changing facts.

At Dec. 31, 1997, the corporation had established environmental remediation accruals in the amount of $264 million ($310 million in 1996). These accruals have two components, estimated future expenditures for site investigation and cleanup and estimated future expenditures for closure and postclosure activities. In addition, the corporation had environmental loss contingencies of $159 million at Dec. 31, 1997.

The corporation has sole responsibility for the remediation of approximately 36 percent of its environmental sites for which accruals have been established. These sites are well advanced in the investigation and cleanup stage. The corporation's environmental accruals at Dec. 31, 1997, included $197 million for these sites ($222 million at Dec. 31, 1996), of which $79 million ($92 million at Dec. 31, 1996) was for estimated future expenditures for site investigation and cleanup and $118 million ($130 million at Dec. 31, 1996) was for estimated future expenditures for closure and postclosure activities. In addition, $87 million of the corporation's environmental loss contingencies at Dec. 31, 1997, related to these sites. The site with the largest total potential cost to the corporation is a nonoperating site. Of the above accruals, this site accounted for $31 million ($32 million at Dec. 31, 1996), of which $17 million ($18 million at Dec. 31, 1996) was for estimated future expenditures for site investigation and cleanup and $14 million ($14 million at Dec. 31, 1996) was for estimated future expenditures for closure and postclosure activities. In addition, $20 million of the above environmental loss contingencies related to this site.

The corporation does not have sole responsibility at the remainder of its environmental sites for which accruals have been established. All of these sites are in the investigation and cleanup stage. The corporation's environmental accruals at Dec. 31, 1997, included $67 million for estimated future expenditures for site investigation and cleanup at these sites ($88 million at Dec. 31, 1996). In addition, $72 million of the corporation's environmental loss contingencies related to these sites. The largest two of these sites are also nonoperating sites. Of the above accruals, these sites accounted for $29 million ($37 million at Dec. 31, 1996) for estimated future expenditures for site investigation and cleanup. In addition, $20 million of the above environmental loss contingencies related to these sites.

Worldwide expenses related to environmental protection for compliance with Federal, state and local laws regulating solid and hazardous wastes and discharge of materials to air and water, as well as for waste site remedial activities, totaled $100 million in 1997, $110 million in 1996 and $138 million in 1995.

Other ■ The corporation has severally guaranteed 45 percent (approximately $606 million at Dec. 31, 1997) of EQUATE Petrochemical Company's debt and working capital financing needs until certain completion and financial tests are achieved. If these tests are met, a $54 million several guarantee will provide ongoing support thereafter. The corporation also severally guaranteed certain sales volume targets until EQUATE's sales capabilities are proved. In addition, the corporation has pledged its shares in EQUATE as security for EQUATE's debt. The corporation has political risk insurance coverage for its equity investment and, through Sept. 30, 1998, substantially all of its several guarantee of EQUATE's debt.

The corporation and its consolidated subsidiaries had additional contingent obligations at Dec. 31, 1997, totaling $63 million, of which $31 million related to guarantees of debt.

Litigation ■ The corporation is one of a number of defendants named in approximately 4,900 lawsuits in both Federal and state courts, some of which have more than one plaintiff, involving silicone breast implants. The corporation was not a manufacturer of breast implants but did supply generic bulk silicone materials to certain manufacturers. Also, the corporation in 1990 acquired and in 1992 divested the stock of a small specialty silicones company that, among other things, supplied silicone gel intermediates and silicone dispersions for breast implants. In 1993 most of the suits that were brought in Federal courts were consolidated for pretrial purposes in the United States District Court, Northern District of Alabama.

In 1995, the District Court approved a settlement program proposed by certain defendants, including the corporation. In August 1997, the court ruled that all claims based solely on the supply of generic bulk silicone materials should be dismissed against the corporation. That decision is final with respect to cases in Federal courts, but does not affect the corporation's participation in the settlement program. Based on the corporation's understanding of the number of claims that were properly filed under the settlement, the corporation estimates that its maximum expenditures under the program should not exceed $100 million prior to insurance recovery. Although insurance coverage is subject to issues as to scope and application of policies, retention limits, exclusions and policy limits, and the insurers have reserved their right to deny coverage, the corporation believes that after probable insurance recoveries neither the settlement nor litigation outside the settlement will have a material adverse effect on the consolidated financial position of the corporation.

In addition to the above, the corporation and its consolidated subsidiaries are involved in a number of legal proceedings and claims with both private and governmental parties. These cover a wide range of matters, including, but not limited to, product liability; trade regulation; governmental regulatory proceedings; health, safety and environmental matters; employment; patents; contracts, and taxes. In some of these legal proceedings and claims, the cost of remedies that may be sought or damages claimed is substantial.

The corporation has recorded nonenvironmental litigation accruals of $184 million, and related insurance recovery receivables of $147 million. At Dec. 31, 1997, the corporation had nonenvironmental litigation loss contingencies of $57 million.

While it is impossible at this time to determine with certainty the ultimate outcome of any legal proceedings and claims referred to in this note, management believes that adequate provisions have been made for probable losses with respect thereto and that such ultimate outcome, after provisions therefor, will not have a material adverse effect on the consolidated financial position of the corporation, but could have a material effect on consolidated results of operations in a given quarter or year. Should any losses be sustained in connection with any of such legal proceedings and claims in excess of provisions therefor, they will be charged to income in the future.

Management's Statement of Responsibility for Financial Statements

Union Carbide Corporation's financial statements are prepared by management, which is responsible for their fairness, integrity and objectivity. The accompanying financial statements have been prepared in conformity with generally accepted accounting principles and, accordingly, include amounts that are estimates and judgments. All historical financial information in this annual report is consistent with the accompanying financial statements.

The corporation maintains accounting systems, including internal accounting controls monitored by a staff of internal auditors, that are designed to provide reasonable assurance of the reliability of financial records and the protection of assets. The concept of reasonable assurance is based on recognition that the cost of a system must not exceed the related benefits. The effectiveness of those systems depends primarily upon the careful selection of financial and other managers, clear delegation of authority and assignment of accountability, inculcation of high business ethics and conflict-of-interest standards, policies and procedures for coordinating the management of corporate resources and the leadership and commitment of top management.

The corporation's financial statements are audited by KPMG Peat Marwick LLP, independent certified public accountants, in accordance with generally accepted auditing standards. These standards provide for the auditors to consider the corporation's internal control structure to the extent they deem necessary in order to issue their opinion on the financial statements.

The Audit Committee of the board of directors, which consists solely of nonemployee directors, is responsible for overseeing the functioning of the accounting system and related controls and the preparation of annual financial statements. The Audit Committee recommends to the board of directors the selection of the independent auditors, which is submitted to the stockholders for ratification. The Audit Committee periodically meets with the independent auditors, management and internal auditors to review and evaluate their accounting, auditing and financial reporting activities and responsibilities. The independent and internal auditors have full and free access to the Audit Committee and meet with the committee, with and without management present.

W. H. Joyce
William H. Joyce
Chairman, President and
Chief Executive Officer

John K. Wulff
John K. Wulff
Vice-President, Chief Financial
Officer and Controller

Danbury, Conn.
Jan. 16, 1998

Independent Auditors' Report

KPMG Peat Marwick LLP

To the Stockholders and Board of Directors of
Union Carbide Corporation:

We have audited the accompanying consolidated balance sheet of Union Carbide Corporation and subsidiaries as of Dec. 31, 1997 and 1996, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended Dec. 31, 1997. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Union Carbide Corporation and subsidiaries at Dec. 31, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended Dec. 31, 1997, in conformity with generally accepted accounting principles.

KPMG Peat Marwick
KPMG Peat Marwick LLP
Stamford, Conn.
Jan. 16, 1998

Corporate Information

1998 Annual Meeting

The 1998 annual meeting of stockholders will be held on Wednesday, April 22, at the John C. Creasy Health Education Center, 24 Hospital Ave., Danbury, CT 06810, beginning at 10 A.M.

A notice of the annual meeting, a proxy statement and a proxy voting card will be mailed to each stockholder in March, together with a copy of the current annual report.

General Offices

The general offices of Union Carbide Corporation are located at 39 Old Ridgebury Road, Danbury, CT 06817-0001 (Telephone: 203-794-2000).

Stock Exchanges

Union Carbide stock is traded primarily on the New York Stock Exchange (ticker symbol: UK). The stock is also listed on the Chicago and Pacific Stock Exchanges in the U.S.

Stock Records and Transfer

The corporation acts as its own stock transfer agent through its Shareholder Services Department, which maintains stockholder records, transfers stock and answers questions regarding stockholders' accounts, including dividend reinvestment accounts. Stockholders wishing to transfer stock to someone else or to change the name on a stock certificate should contact Shareholder Services for assistance. The Registrar is Chase Mellon Shareholder Services.

Dividend Reinvestment

Stockholders of record may purchase shares directly through Union Carbide's Dividend Reinvestment and Stock Purchase Plan. Under the plan, shares may be purchased from Union Carbide free of commissions and service charges.

Requests for a prospectus that explains the plan in detail should be directed to the Shareholder Services Department (Telephone: 800-934-3350).

Form 10-K

A Form 10-K report for the year ended Dec. 31, 1997, will be available in April 1998. A copy without exhibits may be obtained without charge by writing to Union Carbide Corporation, Joseph E. Geoghan, secretary, 39 Old Ridgebury Road, Danbury, CT 06817-0001.

Charitable Contributions Booklet

Union Carbide annually publishes a booklet that lists organizations receiving charitable, educational, cultural or similar grants of $250 or more from the corporation. The booklet is available on written request to the secretary.

RESPONSIBLE CARE Progress Report

This report covers health, safety and environmental progress at Union Carbide. Information includes performance data for U.S. and other worldwide locations, RESPONSIBLE CARE goals, and progress Carbide made in 1997 as it completed implementation of RESPONSIBLE CARE management practices. To obtain a copy, write to Union Carbide Corporation, Public Affairs Department, Section L-4505, 39 Old Ridgebury Road, Danbury, CT 06817-0001 (Telephone: 800-552-5272).

Inquiries

- Inquiries from the public about Union Carbide and its products and services should be directed to the Corporate Information Center, Union Carbide Corporation, Section N-0, 39 Old Ridgebury Road, Danbury, CT 06817-0001 (Telephone: 203-794-5300).
- Inquiries about stockholder accounts and dividend reinvestment should be directed to Union Carbide Corporation, William H. Smith, manager, Shareholder Services Department, Section G-1328, 39 Old Ridgebury Road, Danbury, CT 06817-0001 (Telephone: 203-794-3350).
- Institutional investors, financial analysts and portfolio managers should direct questions about Union Carbide to Union Carbide Corporation, D. Nicholas Thold, director of investor relations, Investor Relations Department, Section E-4286, 39 Old Ridgebury Road, Danbury, CT 06817-0001 (Telephone: 203-794-6440).
- Financial journalists should direct questions to Union Carbide Corporation, David N. Kernis, assistant director, communications, Public Affairs Department, Section L-4502, 39 Old Ridgebury Road, Danbury, CT 06817-0001 (Telephone: 203-794-6929).
- Information about Union Carbide also may be found on the company's home page on the Internet at www.unioncarbide.com. Union Carbide's site provides information in five categories: general, financial, business, RESPONSIBLE CARE and recruitment.

Directors and Corporate Officers

Directors

John J. Creedon is retired president and chief executive officer of Metropolitan Life Insurance Company. A Carbide director since 1984, he chairs the Audit Committee and serves on the Compensation & Management Development, Executive and Health, Safety and Environmental Affairs (HS&EA) Committees.

C. Fred Fetterolf is a retired director, president and chief operating officer of Aluminum Company of America. A UCC director since 1987, he chairs the HS&EA Committee and serves on the Audit, Compensation & Management Development and Nominating Committees.

Joseph E. Geoghan is vice-president, general counsel and secretary of Union Carbide Corporation and has been a director since 1990. He serves on the Executive and Public Policy Committees.

Rainer E. Gut is chairman of Credit Suisse Group, Zurich, Switzerland, Credit Suisse First Boston and Credit Suisse. A UCC board member since 1994, he is a member of the Compensation & Management Development, Finance & Pension and Nominating Committees.

Vernon E. Jordan, Jr. is a senior partner of Akin, Gump, Strauss, Hauer & Feld LLP. He is chairman of the Nominating Committee and a member of the Executive, Finance & Pension and Public Policy Committees. He has been a board member since 1987.

William H. Joyce is chairman, president and chief executive officer of Union Carbide Corporation. A director since 1992, he is chairman of the Executive Committee.

Robert D. Kennedy is retired chairman and chief executive officer of Union Carbide Corporation and has been a director since 1985. He serves on the Audit, Executive, Nominating and Public Policy Committees.

Ronald L. Kuehn, Jr. is a director and chairman, president and chief executive officer of Sonat, Inc. A UCC board member since 1984, he chairs the Compensation & Management Development Committee and serves on the Finance & Pension and HS&EA Committees.

Rozanne L. Ridgway is former assistant secretary of state for Europe and Canada. A director since 1990, she chairs the Public Policy Committee and is a member of the Audit, HS&EA and Nominating Committees.

James M. Ringler is a director and chairman, president and chief executive officer of Premark International, Inc. Elected a director in 1996, he is a member of the Compensation & Management Development and the Finance & Pension Committees.

William S. Sneath is a director of various corporations and retired chairman and chief executive officer of Union Carbide Corporation. He chairs the Finance & Pension Committee and serves on the Executive, HS&EA and Nominating Committees. He has been a director since 1969.

Corporate Officers

William H. Joyce
Chairman of the Board, President and Chief Executive Officer

Joseph S. Byck
Vice-President, Strategic Planning, Investor Relations and Public Affairs

James F. Flynn
Vice-President, General Manager, Solvents, Intermediates and Monomers

Joseph E. Geoghan
Vice-President, General Counsel and Secretary

Malcolm A. Kessinger
Vice-President, Human Resources

Lee P. McMaster
Vice-President, General Manager, Ethylene Oxide/Glycol

Joseph C. Soviero
Vice-President, Corporate Ventures

Roger B. Staub
Vice-President, General Manager, UNIPOL Systems

John K. Wulff
Vice-President, Chief Financial Officer and Controller

Other Senior Management

Eugene J. Boros
Vice-President, General Manager, Specialty Polymers and Products, UCAR Emulsion Systems

David L. Brucker
Vice-President, Engineering and Operations

Ron J. Cottle
Vice-President, Health, Safety and Environment

John L. Gigerich
Vice-President, Information Systems

Kevin P. Lynch
Vice-President, General Manager, UNIPOL Polymers

Philip F. McGovern
Vice-President, Tax

Gordon D. Mounts
Vice-President, General Manager, Industrial Performance Chemicals

F. Don Ryan
Vice-President, General Manager, Specialty Polyolefins and Vice-President, Purchasing

Lee C. Stewart
Vice-President and Treasurer

Vince F. Villani
Vice-President, General Manager, Olefins

Donald R. Wood
Vice-President, Polypropylene Resins

John P. Yimoyines
Vice-President, Venture Management

Union Carbide Around the World

(Excluding partnership or joint venture locations)

United States & Puerto Rico

California
Colorado
Connecticut
District of Columbia
Georgia
Illinois
Louisiana
New Jersey
New York
North Carolina
Texas
Vermont
Washington
West Virginia
Puerto Rico

Canada

Alberta
Ontario
Quebec

Europe

Austria
Belgium
France
Germany
Italy
Russia
Spain
Sweden
Switzerland
Turkey
United Kingdom

Latin America

Argentina
Brazil
Chile
Colombia
Costa Rica
Ecuador
Guatemala
Mexico
Peru
Venezuela

Far East & Other

Australia
China
Egypt
Hong Kong
Indonesia
Japan
Jordan
Malaysia
Morocco
Philippines
Singapore
South Africa
South Korea
Sri Lanka
Taiwan
Thailand
United Arab Emirates

Definition of Terms

Unless the context otherwise requires, the terms below refer to the following:

Union Carbide Corporation, Union Carbide, Carbide, the corporation, we, our, the company, UCC	Union Carbide Corporation, the parent company, and its consolidated subsidiaries
Domestic	United States and Puerto Rico
Domestic operations	Operations of Union Carbide in this area, including exports
International operations	Operations of Union Carbide in areas of the world other than the United States and Puerto Rico

The use of these terms is for convenience of reference only. The consolidated subsidiaries are separate legal entities that are managed by, and accountable to, their respective boards of directors.

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